



Nonprofit Housing: Costs and Funding

Final Report

Volume I—Findings

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The contents of this report are the views of the contractor and do not necessarily reflect the views or policies of the Department of Housing and Urban Development or the U.S. Government.

FOREWORD

Nonprofit housing developers have become increasingly important producers of housing for low-income people, developing an estimated 20-30,000 units per year nationwide. Projects developed by nonprofits are typically high-risk endeavors in difficult settings for hard-to-serve populations. Such projects are, by their nature, complex, time-consuming, and expensive to develop, and often CDCs are the only entities willing to undertake them. Many nonprofit developers provide social or community services in conjunction with physical development, further complicating already challenging efforts. Thus, nonprofit organizations fill a unique and important niche in providing housing for poor people and in rebuilding communities, and they deserve our support.

In this report, Abt Associates presents a methodology for comprehensively assessing the direct and indirect costs and funding of nonprofit housing development projects. The study finds that to finance their developments, nonprofits must typically assemble seven or eight layers of financing from different sources, each of which has its own agenda and requirements. As a result, many nonprofit developers rely on national or local intermediaries to assist them in accessing or packaging funds.

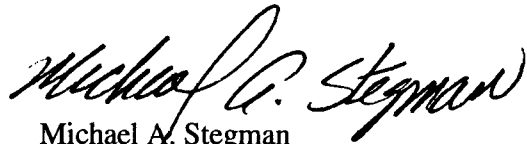
Recognizing the significant role nonprofits play in low-income housing development, governments at all levels offer them favorable treatment in accessing certain kinds of financing and, local governments may offer fee waivers or preferential access to nonmonetary resources (such as excess public land). Nonprofit developers capture additional value for their projects through grants from philanthropic organizations; donated materials, office space, expertise or other “inkind” contributions; and by taking development fees that average half the industry standard. Because of these kinds of assistance, nonprofit developers can often reduce the amount of financing required for their projects.

This study is the first attempt to account for all the resources nonprofits can bring to bear to develop housing for low-income people. It includes such items as land subsidies, interest buy-downs, and the portion of the nonprofit developer’s development fees that is contributed to the project to reduce tenant rents. Abt tests the methodology by applying it to 15 selected projects in five cities.

Because of the more inclusive definition of development costs used in this report, the project costs documented here cannot be directly compared with typical development costs reported by for-profit developers. Nevertheless, when the researchers did apply average industry development costs to these projects, they found that—in spite of the enormous burdens under which nonprofits operate— nonprofit development costs were sometimes higher and sometimes lower than industry averages, but were generally comparable.

The methodology developed by Abt can be used in several ways. It enables us to document and better understand the challenges faced by nonprofits in developing and financing certain kinds of projects. It provides a basis for evaluating the uses and impact of specific financing incentives (such as the Low-Income Housing Tax Credit or HOME funds). And it suggests avenues of further research that could help HUD shape its programs to facilitate nonprofit housing development more effectively.

The Department of Housing and Urban Development is committed to working with nonprofit development organizations to rebuild both the physical and spiritual sense of community. We hope that this report stimulates discussion and additional research on the components of development costs, how to devise more efficient financing mechanisms, and HUD's role in enhancing the capacity and production of nonprofit developers.

A handwritten signature in black ink, reading "Michael A. Stegman". The signature is written in a cursive, flowing style.

Michael A. Stegman
Assistant Secretary for
Policy Development and Research

TABLE OF CONTENTS

FOREWORD	iii
EXECUTIVE SUMMARY	ES-1
Chapter 1 INTRODUCTION	
1.1 Research Context	1-1
1.2 Research Objectives	1-2
1.3 Organization of this Report	1-5
Chapter 2 RESEARCH APPROACH	
2.1 Elements of the Research Design	2-1
2.2 Key Issues in Developing the Cost and Funding Framework	2-1
2.3 The Framework for Collection of Costs and Funding Sources	2-2
2.4 The Data Collection Instrument and Methodology	2-3
2.5 Site Selection	2-6
2.6 Normalization and Analysis	2-7
2.7 Use of Experts	2-10
Chapter 3 CHARACTERISTICS OF NON-PROFIT SPONSORS AND PROJECTS	
3.1 Sponsors of Selected Projects	3-1
3.1.1 Sponsor Focus	3-2
3.1.2 Sponsor Experience	3-4
3.1.3 Relationship of Sponsor Experience to Length of Development Period and Development Productivity	3-5
3.1.4 Other Activities by Non-Profit Sponsors	3-7

3.2	Characteristics of Selected Projects and the Development Process . . .	3-14
3.2.1	Prototype Patterns of Development and Metropolitan Area Patterns	3-20
3.2.2	Housing Stock	3-29
3.2.3	Uniformity of Funding Sources	3-29
3.2.4	Role of Experienced Developers as Mentors	3-29
3.2.5	Role of State/Local Laws and Processes	3-31
3.2.6	Role of Available Subsidies	3-32

Chapter 4 SOURCES OF FUNDS

4.1	Overall Development Costs.	4-1
4.2	Sources of Funds.	4-4
4.2.1	Cash Equity	4-6
4.2.2	Debt Financing	4-14
4.2.3	Non-Cash Contributions	4-15
4.3	Characteristics of Other Sources of Funds	4-20
4.3.1	Numbers of Funding Sources	4-20
4.3.2	Leveraging of Private Financing	4-20
4.3.3	Present Value of Subsidies and Contributions	4-20

Chapter 5 USES OF FUNDS

5.1	Components of Development Costs	5-1
5.1.1	Planning and Design	5-3
5.1.2	Acquisition	5-3
5.1.3	Finance and Carrying Charges	5-4
5.1.4	Relocation	5-4
5.1.5	Construction	5-5
5.1.6	Real Estate Taxes	5-5
5.1.7	Marketing	5-5
5.1.8	Reserves	5-6
5.1.9	Legal and Organizational Costs	5-6
5.1.10	Overhead/Staff	5-7
5.1.11	Developer's Fee	5-7
5.1.12	Syndication Costs	5-10
5.2	Comparison of the Non-Profits' Hard Costs with Industry Norms . . .	5-11
5.3	Additional Observations Regarding Comparisons of Non-Profit and For-Profit Costs	5-15

Chapter 6 RENTS AND AFFORDABILITY

6.1 Approach to Rent Analysis 6-1

6.2 Observations on Rent Levels and Affordability 6-2

6.3 The Impact of Subsidies on Rent Levels 6-4

Chapter 7 AREAS FOR ADDITIONAL RESEARCH

7.1 Non-Profit/For-Profit, Market Value, and Voucher Comparisons 7-1

7.2 Other Non-Profit Development Cost and Funding Issues 7-3

7.3 Research on Refinements to the Analysis Methodology 7-4

7.4 Development of a National Database on Non-Profit Housing Development
Sponsors and Projects 7-7

7.5 Examination of Operating Revenues/Costs 7-9

APPENDICES

Appendix A: Site Selection

Appendix B: Development of the Cost and Funding Framework

Appendix C: Assessment of the Cost and Funding Framework and Collection
Methodology

Appendix D: The Data Collection Instrument/Cost and Funding Framework and
Instructions for Its Use

Volume 2 (Bound separately)

Appendix E: Case Study Narratives

NONPROFIT HOUSING: COSTS AND FUNDING

EXECUTIVE SUMMARY

The Federal government has shown an increased interest in the capacity of nonprofit organizations to produce and manage affordable housing. This interest is demonstrated in the special role created for nonprofits in legislation such as the Stewart B. McKinney Act of 1988, the Financial Institutions Reform, Recovery and Enforcement Act of 1989, and the Low Income Housing Preservation and Resident Homeownership Act of 1990, as well as in Federal programs such as HOME, HOPE, and the Low Income Housing Tax Credit (LIHTC).

Despite the involvement of nonprofits in housing production for more than two decades and the emphasis now being given to nonprofit housing development, in recent years there has been no systematic comparative examination of the development costs incurred by these organizations or the financing approaches utilized. Primary reasons for the lack of research are that, until recently, nonprofits were viewed as minor actors in housing production and that a common cost and funding framework for collecting complete data on resources and uses in affordable housing projects did not exist. The significant range of organizational types, populations served, and financing approaches encompassed by nonprofit developers also rendered very difficult the task of structuring systematic and comparative research.

THE COST AND FUNDING FRAMEWORK

This study has developed the necessary basic tool to permit comparative research on nonprofit housing development. The *cost and funding framework* developed in this study has several significant features. First, the framework provides for a complete accounting of development resources and costs, including those attributable to non-cash contributions, donations, and subsidies. Second, the framework distinguishes among the various phases of the development process, including the financing phases, to facilitate an understanding of the element of time in the projects and the interrelationship of components. Third, it employs a *nested hierarchical structure*, which builds up individual expense items into major cost categories for each phase of the development process. This allows the capture of data on funding sources and uses at a very fine and an aggregated level of detail, depending on the information available. The structure also accommodates the variation in data availability from

one nonprofit to the next, as well as the varying cost-accounting classifications used by different organizations.

The second major task of the study involved testing the framework on 15 purposively selected projects. The application of the cost and funding framework to 15 nonprofit multi-family projects demonstrated its capacity successfully to capture comprehensive information on sources and uses of funds for a variety of organizational settings, building types, development approaches, and financing packages. (One project, though described by its Kansas City sponsor as "multi-family", actually was a tract development of single-family houses). It was possible to collect complete data on financing received and out-of-pocket expenses, as well as to derive reasonable estimates of non-cash contributions, subsidies, and write-downs by reviewing project files and interviewing key participants in the development efforts. This allowed the build-up of development costs into 12 standard cost categories, permitting cross-project comparisons by category.

A third study task was to examine the cost and funding patterns for commonalities and differences and to develop insights and define additional research. Although no statistically valid generalizations can be made from the study properties (given the small number of properties examined and the purposive nature of the selection of projects), a number of preliminary observations emerged about the affordable housing development process, especially for nonprofit developers.

A final task of the study was to address the question of whether nonprofits and for-profits differ in their costs to develop comparable packages of housing services. Using industry cost standards (R. S. Means) for new construction, the study computed an estimate of the per-square-foot rates for the construction "hard costs" of the six new construction projects in the study, for comparison with the observed nonprofit construction costs. In the broader sense of full development costs, the study also identified the development expense elements where nonprofits and for-profits might be expected to experience different costs. The study examined the options available for further exploring nonprofit/for-profit development cost comparisons, and indicates which approaches appear most promising.

Projects Selected for Study

This study applied the cost and funding framework, with its supporting data collection methodology, to multi-family projects located in five Metropolitan Statistical Areas (MSAs): Boston, Washington, D.C., Chicago, Kansas City (Missouri), and San Francisco/Oakland. Three affordable housing projects (intended to provide housing affordable to households under 80 percent of median income for at least half of the units) were examined in each MSA. The sponsors spanned a range from novice to experienced housing developer.

All of the housing projects selected for examination had been constructed or rehabilitated in the last four years, were privately held, and provided family housing. Twelve of the 15 were rental housing, while 3 involved cooperatives. Five of the rental projects involved new construction, and seven were substantial rehabilitation efforts. One of the three cooperatives involved new construction, one was concerned with substantial rehabilitation, and the third mixed new construction and rehabilitation. While Low Income Housing Tax Credit use was not a selection criterion, it turned out that 12 of the 15 projects were LIHTC projects. Projects varied widely as to the development context. Some were in relatively straightforward development contexts while others faced more challenging environments, such as difficult site characteristics, historic district design restrictions, and neighborhoods requiring heavier security during construction. These differences no doubt drive costs in ways that we were unable to account for in this study.

The projects selected for the study ranged in size from 15 to 151 units, with a mean of 59.3 and a median of 43 units. The pre-development phase (generally, the period from the identification of the site to the start of construction) for these projects ranged from 8 months to 5 years, with an average of 29.3 months and a median of 24 months. The construction periods ranged from 5 to 22 months, with a mean of 11.7 months and a median of 10 months. The overall development period (pre-development plus construction period) ranged from 14 to 82 months, with a mean of 41 and a median of 35 months.

The nonprofit sponsors for the development projects in these MSAs were incorporated from 5 to 24 years ago. The majority of the nonprofit organizations examined were neighborhood-based (11 of 15), but one nonprofit had a city-wide focus and 3 had a county-wide or metropolitan focus. In terms of experience in housing development, there were 4

organizations with more than 15 years of production experience, while 3 nonprofits had never before undertaken a housing development project.

COLLECTION OF DATA ON DEVELOPMENT COSTS

The study collected data on development costs for each of the 15 nonprofit projects in a variety of forms, as shown in Table S-1. First, the developer's own estimates of the project costs are listed as provided by them from cost certifications, financial statements, or final pro formas. These figures are displayed on an unadjusted per-unit basis in Column 1 of Table S-1. Sponsors differ in their conventions as to what items are included in "cost", as indicated on the table.

To permit cross-project comparisons using consistent expense categories, the study then computed its own figures for cash, or out-of-pocket, costs—that is, the expenses for acquisition, construction and financing covered through actual cash outlays by the developer, even if some of these costs were financed through loans or grants. These out-of-pocket computations (Column 2) in some cases closely reflected the developer's own estimates. In other instances the out-of-pocket figures differed from the developer's estimates due to the inclusion of such items as bridge loan interest, syndication costs, or expenses covered by syndication proceeds, which the developers had not attributed to the development period. Columns 1 and 2 are "raw" costs in the sense that they are not normalized for unit size, regional variations in costs or time of development.

Because the study was designed to capture a complete accounting of development resources for each project, an estimate of non-cash contributions was also derived and added to the out-of-pocket calculations. This combined "full development cost" incorporates the value of all development period resources, such as donated land or reduction in construction loan interest rate, as well as the total amount of any Tax Credit investor payments. The full development cost was normalized for year of construction, location, and unit size as shown in Column 3 (excluding the value of land) and Column 4 (including the value of land).

A cautionary note is warranted here about comparisons of costs for the study projects. The study's cost build-ups include items as project expenses (such as the full value of syndication proceeds regardless of when they are received, bridge loan interest, net worth and partnership operating expenses, pre-funded operating reserves, and "paper" developer's fees and

Table S-1: Comparison of Per Unit Development Cost Under Different Methodologies				
Non-Profit Projects	Column 1 Cost Certification/ Development Estimate (Not Adjusted)	Column 2 Out-of-Pocket Cost (Not Adjusted)	Column 3 Normalized Full Development Cost (w/o Land)	Column 4 Normalized Full Development Cost (with Land)
1. Langham Court Cooperative	\$163,269 ^a	\$204,869	\$223,445	\$232,855
2. Washington-Columbia I	\$66,649 ^b	\$78,306	\$106,943	\$110,678
3. La Concha Apartments	\$68,086 ^b	\$86,234	\$104,115	\$107,462
4. Dorsey R. Moore Coop.	\$66,073 ^c	\$66,073	\$55,232	\$56,823
5. Florian Gardens Coop.	\$40,235 ^c	\$41,165	\$44,516	\$50,866
6. Renaissance Apartments	\$39,156 ^d	\$40,581	\$55,789	\$58,010
7. Washington Boulevard Apts.	\$65,820 ^e	\$65,820	\$48,960	\$49,423
8. Plaza on the Park II	\$59,193 ^e	\$59,193	\$59,237	\$60,907
9. Borinquen Apartments	\$71,022 ^e	\$71,022	\$54,849	\$55,636
10. Blue Hill Take Part I	\$45,331 ^e	\$45,653	\$40,988	\$42,115
11. Signal Hill Townhomes	\$77,532 ^e	\$81,482	\$46,735	\$47,437
12. Quality Heights Homes	\$57,403 ^e	\$58,700	\$61,781	\$63,286
13. Baywood Apartments	\$86,962 ^f	\$106,854	\$75,705	\$82,969
14. Maria Alicia Apartments	\$143,900 ^g	\$198,072	\$154,560	\$170,604
15. Frank Mar Community Housing	\$132,586 ^h	\$134,536	\$149,145	\$152,953

^a Based on development consultant's estimates of out-of-pocket costs, which exclude interest on bridge loans, the cost of the underground garage, pre-funded reserves, the deferred and "paper" developer's fee, and a portion of the syndication costs which it does not consider as attributable to development.

^b Based on cost certification, excluding "paper" profit and risk allowance.

^c Based on developer's estimate (no pre-funded reserves in project).

^d Based on developer's estimate, excluding reserves and imputed equity.

^e Based on developer's estimate, excluding reserves.

^f Based on developer's estimate, which excludes reserves and syndication costs.

^g Based on HODAG cost certification less commercial space (from syndication documents).

^h Based on developer's estimate, excluding hard costs for commercial portion, operating reserves, and pre-payment of loan.

Column 1 provides raw costs per unit from the sponsors' records, unadjusted.

Column 2 provides unadjusted cash (out-of-pocket) costs per unit according to the study definition of cash costs.

Column 3 and 4 provide per unit full development cost (including non-cash items) normalized for unit size, regional cost variation, and time of development.

Source: Data provided for Abt 1992 study by 15 non-profit sponsors.

builder's profit allowance) which are elements of development cost generally *not* included in published cost profiles of projects. Therefore, care must be taken to avoid inappropriate comparisons of the study's built-up values to raw costs from other projects for which comparable build-ups have not been performed.

OBSERVATIONS ON SOURCES OF FUNDS

A summary of cash (whether covered by equity, grants, or loans) and non-cash funding for the study projects is provided in Table S-2. By adding the value of the non-cash contributions to that of the cash resources used for the out-of-pocket expenses, a figure for "full development cost" was derived. As shown in Table S-2, the full development cost (unadjusted) ranged from \$43,402 to \$264,664 per unit, with a per unit mean of \$104,520.

Sources of Funds: Cash Resources

Among the 15 projects, per-unit out-of-pocket development costs ranged from \$40,581 to \$204,869, with a mean of \$89,237. The mean percentage of out-of-pocket project costs covered by cash equity was 28.7 percent, with the remaining 71.3 percent covered through debt financing. Cash equity in the projects ranged from \$539 to \$122,463 per unit, with an average of \$30,505. The most common form of equity in the 15 developments was Tax Credit syndication proceeds (investor equity payments), part of the financing of 12 of the projects. Only the three Washington, D.C. projects did not use Tax Credits. In two of these Washington, D.C. developments, the nonprofit sponsors made use of in-house development funds as a source of equity; in the third, the sponsor utilized cooperative share deposits, a private grant, and net interim income from the project.

The per-unit amount of debt financing (permanent financing) in the developments ranged from \$30,212 to \$152,411, with an average of \$58,732. Thirteen of the developments received a letter of credit and/or loan from a bank or private financial institution for acquisition, interim/construction, permanent financing, or a combination thereof. Eleven projects received loans through the city, generally in the form of CDBG or Rental Rehabilitation Program funds. Eight developments were awarded loans by their state housing finance agency. The projects typically used multiple sources of funding, averaging 7.8 sources per development.

Table S-2: Per Unit Sources of Funds (Unadjusted)				
Source	Minimum	Maximum	Average	Average Percent of Full Development Cost
Cash Equity	\$539	\$122,463	\$30,505	25.3%
Debt Financing	\$30,212	\$152,411	\$58,732	61.6%
Out-of-Pocket Costs (Equity plus Debt)	\$40,581	\$204,869	\$89,237	86.9%
Non-Cash Resources	\$2,029	\$59,795	\$15,283	13.1%
Full Development Cost = Full Project Resources (Out-of-Pocket plus Non-Cash)	\$43,402	\$264,664	\$104,520	100%

Source: Abt study of 15 nonprofit housing developments, 1992.

Sources of Funds: Non-Cash Resources

To create a complete picture of the resources entailed in the fifteen developments, data were also collected on non-cash contributions received. In cases where the precise value of a non-cash contribution was unknown, an estimate was made using local information on prevailing rates. *The non-cash contributions realized by the projects ranged from \$2,029 to \$59,795 per unit, with an average of \$15,283.*

As a percentage of full development costs per unit, non-cash contributions varied from a low of 4.1 percent to a high of 32.8 percent, with a mean for the fifteen projects of 13.1 percent. In terms of mean percentage, the largest source of non-cash contributions came in the form of below-market interest rates during development and waived finance fees, generally obtained in connection with debt financing from public sources (such as the state housing finance agency). This category averaged \$2,230 per unit or a mean of 26.9 percent of non-cash contributions received. The second and third largest sources of non-cash contributions were developer's fees and developer's overhead/staff expenses donated by the nonprofit sponsors. On average, these two categories accounted for 21.9 percent and 21.7 percent, respectively, of the non-cash contributions received. The final major category of non-cash contributions, averaging 19.1 percent, was for acquisition. These contributions came in the form of donated land, loan

subsidies, waived title/transfer fees, and forgiven real estate taxes. In terms of the average estimated dollar value, acquisition represented the largest non-cash category, with a mean of \$4,888 per unit. However, large contributions in this category were limited to just a few of the projects. Contributed city infrastructure represented an average of 4.2 percent of non-cash resources received.

Present Value of Grants and Contributions

As part of the study, a calculation was also made of the present value of all development-period grants and non-cash contributions in the 15 case studies, plus the value of subsidies on long-term loans. *The total capital value of these subsidies and contributions ranged from a low of \$13,369 per unit to \$134,928 per unit. In percentage terms, the present value of these subsidies ranged from 12 to 67 percent of full development costs.* In fact, 11 of the 15 projects received subsidies and contributions whose present value exceeded one-third of full development costs. (Note that the value of the subsidies on long term loans is not included in full development cost.)

OBSERVATIONS ON COST CATEGORIES AND AFFORDABILITY

Uses of Funds: Unadjusted Costs

An overview of the average costs observed in the 15 nonprofit projects is provided in Table S-3 for the twelve major development cost categories. These cost categories had been defined as a result of a survey of existing accounting frameworks used by nonprofit and for-profit housing developers.

As expected, *direct construction expenses (including site preparation and improvements) proved to be the single largest cost category, averaging \$61,622 per unit and, as a mean percentage, 60.8 percent of the full development budget.* Among the 15 projects, per-unit direct construction costs ranged from \$20,711 to \$137,443, or 44.3 percent to 75.7 percent of full development costs. Virtually all of the direct construction costs were out-of-pocket costs. The maximum non-cash contribution for direct construction costs among the 15 projects was \$5,750 per unit (in the form of donated infrastructure and materials for one of the Kansas City projects), and on average, the non-cash contributions for this expense category were only \$555 per unit.

Cost Category	Mean Out-of-Pocket	Mean Non-Cash Contribution	Mean Total	Average Percentage
Planning and Design	\$2,866	\$114	\$2,979	2.6%
Acquisition	\$6,649	\$4,888	\$11,537	12.4%
Finance/Carrying Charges	\$4,732	\$2,230	\$6,962	6.2%
Relocation	\$311	\$ 0	\$311	0.3%
Construction	\$61,067	\$555	\$61,622	60.8%
Real Estate Taxes	\$409	\$68	\$477	0.5%
Marketing	\$393	\$ 0	\$393	0.4%
Reserves	\$2,559	\$ 0	\$2,559	2.2%
Legal and Organizational (including Development Consultants)	\$1,659	\$331	\$1,989	2.0%
Developer's Overhead/Staff	\$238	\$1,942	\$2,180	2.0%
Developer's Fee	\$3,811	\$5,156	\$8,967	6.2%
Syndication Costs	\$4,544	\$ 0	\$4,544	4.4%
TOTAL	\$89,237	\$15,283	\$104,520	100.0%

Source: Abt study of 15 nonprofit housing developments, 1992.

The next largest expense category on average was acquisition, with a mean cost of \$11,537 (average percentage of 12.4 percent of full development cost). Among the 15 projects, acquisition ranged from \$745 to \$27,381 per unit, and accounted for up to 30.1 percent of the full development budget. An average of 57.6 percent of costs of acquisition was out-of-pocket, with the remainder in the form of contributions.

The third largest expense category was developer's fees. When taken together with developer's overhead and staffing, these combined categories averaged \$11,147 per unit (and a mean percentage of 8.2 percent of full development costs). The "expense" of developer's fees and overhead was covered primarily by non-cash contributions from the nonprofit sponsors. On

average, the nonprofit sponsors only realized \$4,049 per unit as a cash payment of developer's fee and overhead, averaging less than 4 percent of the full development cost.

Normalization of Per-Unit Costs

To facilitate cross-project comparisons, the full development costs for the 15 projects were normalized through adjustments for location and year completed (using R.S. Means indices), as well as for unit size (to reflect the equivalent number of standard 844 square foot, two-bedroom units). Note that the cost indices (R. S. Means) are metropolitan-area wide for all multi-family housing; therefore, they may not well represent costs incurred at difficult center-city development sites. Normalization of per-unit costs was also performed excluding land costs, as these tended to vary considerably among the projects. *The resulting adjusted full development costs (without land) ranged from \$40,988 to \$223,445 per unit, with an average across the 15 projects of \$85,467.* New construction projects tended to be the most expensive (with an average normalized per unit cost of \$109,515), particularly those located in center-city sites, those that provide below-grade parking, and those that involve low- or high-rise apartment construction.

A major finding of this study is the large unexplained variation in the costs of nonprofit sponsored affordable housing development, after normalization. Despite adjustments for size differences, locational variations in construction costs, and differences in date of construction, there remain striking differences in per-unit costs. These differences appear to cluster by metropolitan area and may be tied to the local development and financing models being followed in each metropolitan area.

Affordability

The analysis showed that, *with the development-period subsidies they had received, the nonprofit sponsors were able to produce units with average rents affordable to households under 80 percent of median income, in all instances but two Boston projects.* In 10 of the 12 non-Boston developments, on the basis of development subsidies alone, the average rents were affordable to households under 50 percent of median. With development-period subsidies alone, two projects in Chicago and one in Washington achieved rents that could reach households under 30 percent of median income. Thus, the development-period public subsidies that were received

appear to have been sufficient in most cases to house low-income or very low-income households in a high percentage of the units developed. In two of the Boston projects, the development-period subsidies were not sufficient to achieve affordability and were supplemented with Section 8 rental assistance subsidies.

PATTERNS OF DEVELOPMENT

One objective of this study was to identify prototype patterns of financing and costs of nonprofit housing development. The limited, non-representative group of 15 projects does not permit statistically valid generalizations about the universe of nonprofit housing development, or even about nonprofit behavior in the selected MSAs. However, the observations from the 15 projects suggest patterns which, if found to be representative, could have significant policy implications. Keeping in mind the speculative nature of these comments, the reader is offered some preliminary observations about these patterns and their potential significance.

MSA Development Scenarios

Is it likely that individual MSAs exhibit their own distinct development scenario (or scenarios), rather than a standard national prototype for nonprofit development?

The site reconnaissance and analysis of selected nonprofit projects suggest that there are local "models" of development, in terms of ownership (whether rental or cooperative housing), construction approaches (whether new construction or rehabilitation), financing mechanism (whether Tax Credits were syndicated by a local or a national nonprofit and whether the state Housing Finance Agency, CDBG, or private sources provided financing), per-unit costs, and contract rents.

As previously stated, it appears that variations in per-unit project cost are not explained simply by variations in unit size, year completed, or regional labor and material costs. Instead, they seem to be at least in part a reflection of the local approaches to structuring development, with a considerable amount of the variation attributable to the soft costs of development associated with the particular local model. (It should be noted, however, that the study did *not* attempt to adjust for cost differences in new construction versus varying levels of rehabilitation, or for other special circumstances of each project.)

These local models appear to have been created in each MSA by a network of more experienced nonprofit developers, along with support organizations and a few financial institutions. As the several actors involved found a successful strategy, it tended to be repeated. Even when national organizations (such as the Local Initiatives Support Corporation) were involved and brought some standardization to the process, they generally seemed to adapt various financing pieces to a local model. The more experienced developers and support organizations in the MSAs often served as "mentors" to novice nonprofits, so that even these novices were able to undertake ambitious development efforts with complex financing approaches.

If these observations are an accurate indication of the nature of nonprofit development around the country, then to understand the precise ramifications of a policy or program for a particular region, a range of local models and conditions must be identified and understood. This is because the effect of the policy or program will vary with the local development models and local conditions. It is important to note again that the projects in the study were not randomly selected, nor are they necessarily representative of nonprofit development in each community examined.

Because among the study projects the developments in the Boston and San Francisco MSAs were at the upper end of the per unit cost range, as part of the investigation of patterns of development the study also included collection of some "raw" cost information on other recently completed developments in Boston. These raw, unadjusted costs were obtained from Boston housing officials, and are listed in Table S-4. The table shows that the study projects had both higher and lower raw costs than these other, non-study projects that also had been completed by nonprofits. Although the study did not directly collect any data on for-profit projects, it is also of note that the information on for-profit projects provided by the Boston officials shows raw per unit costs both above and below the nonprofit raw costs.

The Boston information also suggests that there may be changes in the local development models over time. For instance, representatives of Boston housing agencies have commented that due to changes in the market and in the state's support for housing, developers of affordable housing are shifting to less costly development models. Examples are the Smith Properties and Project Family Independence projects included in Table S-4.

	Developer	Status	# of Units	Per-Unit Cost^a	Comments
Hyde Square	Nonprofit	75% completed	41	\$135,465	LIHTC, new construction
Stony Brook Gardens	Nonprofit	Completed	50	\$135,132	LIHTC, new construction and (minor) rehabilitation
Project Family Independence	Nonprofit	Occupied	15	\$129,333	Rental, new construction (modular), to become coop
Lower Roxbury Tenant Cooperative	Nonprofit	Occupied	71	\$91,326	Cooperative, rehabilitation (not LIHTC)
Parmelee Court	For-Profit	Occupied	74	\$160,228	LIHTC, rental, new construction
Douglass Plaza	For-Profit	Occupied	122	\$199,925	LIHTC, rental, new construction
Lucerne Gardens	For-Profit	In construction	45	\$151,669	LIHTC, new construction
Audubon/Baker	For-Profit	Occupied	29	\$144,009	LIHTC, rental, rehabilitation
Smith Properties	For-Profit	25% completed	24	\$73,150 ^b	Rental, scattered sites, rehabilitation, 3-6 unit wood frame

^a Cost figures for completed projects based on cost certifications; costs for unfinished projects based on latest pro forma estimates.

^b City official says this figure will increase when project is syndicated.

Source: Information supplied by Boston Public Facilities Department and Boston Redevelopment Authority, 1992.

Similarly, although the study projects in Washington, D.C. were at the low end of the cost range in the study and none used the Tax Credit, a project currently being undertaken there by one of the nonprofits examined in our study is anticipated by the developer to have a final per-unit cost above the average observed in the study. This rehabilitation project, the Whitelaw development by Manna, Inc. is a Tax Credit project and is expected to realize a per-unit cost (including acquisition and site work) of \$140,000. The build-up of a "full development cost" (using the methodology explained in this study) would likely result in an even higher per unit figure.

The Use of Tax Credits

Does the prominent use of Tax Credits and the variation in per-unit costs experienced by the study's Tax Credit projects suggest that the variation in costs among nonprofit projects may be as important as comparison with for-profit projects?

To the extent that a single factor approached being a constant in the 15 projects, it was the use of Low Income Housing Tax Credits (LIHTC)—present in every project except for the three in Washington, D.C. The Tax Credit projects are owned by a partnership in which the limited partners have a large portion of the ownership but the controlling general partner is usually a subsidiary of the nonprofit. Thus, *the nonprofit was the initiator and controlling entity in each of these cases*. The LIHTC projects also showed great variability in the normalized per-unit costs, from the least to the most expensive project. Therefore, use of Tax Credits did not appear to make costs more uniform.

The fact that Tax Credits were not used by the three Washington, D.C. projects in the study may be attributable to several factors. First, study reconnaissance suggested that the Tax Credit agency for the District of Columbia had a very modest allocation of credits; the limited number of Tax Credit awards that were made in the time period under consideration went largely to purely for-profit projects. Second, the Washington, D.C. area nonprofit developments frequently involved cooperatives, which do not lend themselves readily to the Tax Credit program. Third, some of the most active nonprofit developers in the District prefer avoiding the complexities associated with Tax Credits, choosing to utilize alternate approaches for securing cash equity for projects. However, the more recent Whitelaw rehabilitation effort by Manna, Inc. (cited above) *is* being partially financed through Tax Credits. It was not included in this study but illustrates the danger of overinterpreting the study results for MSA patterns.

The study showed that the Tax Credit projects often used part of their net syndication proceeds (investor payments less costs of syndication) to pay for the soft costs associated with development, such as bridge financing charges, pre-development expenses, and developer's fees. Other funding sources utilized by the nonprofit sponsors (especially local governments) often did not recognize such expenses as allowable or mortgageable, even if they were crucial to moving the developments forward. Moreover, since the installment schedule for the investor payments meant that reimbursement for these soft costs was often deferred, nonprofits were forced to subsidize the projects themselves during development, through contributions of staff time and

other organizational expenses. *The nonprofits' frequent inability to recoup the administrative expenses associated with the housing development projects, or to realize significant developer's fees as a mechanism to build up capital, may result in low salaries and limited job opportunities/stability. This in turn may cause high staff turnover, fluctuations in nonprofit organizational capacity, and difficulties in taking timely advantage of development opportunities.*

Reliance on Multiple Funding Sources

Is the dependence on multiple funding sources, and especially the delays experienced by nonprofits in securing public funding, a critical element in costs of developing affordable housing?

To achieve full funding for their developments, *the 15 nonprofits used multiple funding sources, averaged 7.8 sources per development.* Often the financing provided by individual funding sources was modest. Yet this multiple financing resulted in numerous delays in the 15 projects, especially in connection with public sources of funding; this in turn could delay the closing on private financing. The need to package numerous small financing components is a common finding of studies on nonprofits regarding the critical and chronic shortage of funds which many such organizations experience. Each private lender apparently tries to minimize risk in such projects by providing only a fraction of the financing needed. Ultimately, the nonprofit developers in this study were relatively successful at leveraging private funds for their projects with the various forms of public subsidy received. Among the 15 developments, on average, every dollar in public funding or a public non-cash contribution was matched on a dollar-for-dollar basis by private financing. However, *the delays, the necessity for bridge financing, and the additional settlement and transaction costs associated with the multiple funding sources added to the overall cost of development.* Further research would be desirable to quantify these costs and observe whether for-profit developers of affordable housing face similar funding challenges.

The Control of Costs

Do the public bodies responsible for housing subsidies need to devise more effective cost control strategies?

Observations of the 15 nonprofit projects suggest that the most immediate question may be *why* there is such variation after normalization in the nonprofit cases studied. Sponsors pointed to a combination of factors contributing to high costs. In addition to the higher costs imposed in dealing with multiple funding sources, significant pre-funded reserve requirements, special design requirements, and difficult site characteristics are claimed to have substantially increased the development costs of some projects. For most of these projects, the "market" comprises the eligible households in the area, and "marketability" is a question of having sufficient subsidies so that, whatever the development cost, affordable subsidized rents can be delivered. Some public providers of financing or subsidies do have tests on allowable contract (equivalent unsubsidized) rents, such as using the HUD Fair Market Rents, and increased attention is getting paid to "subsidy layering" analyses as a way of trying to assure that no more subsidy than necessary goes into a project. However, the underwriting evaluations by funding sources for the projects in this study at times appeared to pay little attention to overall cost per unit, concentrating on their share of the financing and whether the development was "feasible" in the sense that the available subsidies were adequate. Such an approach does not function to contain costs.

It would appear that the public bodies providing funding may need to play a stronger role in setting reasonable standards for development costs. Standards would need to be directed to the least expensive methods for delivering a unit of affordable housing, while still taking into account any unusual design constraints or site characteristics. Further, the potential role of such housing in stabilizing or revitalizing neighborhoods and the broader public benefit that might result must be considered. However, in the context of multiple funding and subsidy sources, requirements to perform elaborate cost review or subsidy "layering" analyses will simply be another source of delay and implicit costs. In addition to some system of cost control, it appears that a system is needed that provides more of the subsidy and financing from fewer sources, for both nonprofits and for-profits alike, which would function both to reduce processing costs and to focus more clearly the responsibility for cost control.

ON-GOING PROPERTY MANAGEMENT AND TENANT SERVICES

Although the nonprofit sponsors exhibited a strong continuing interest in how the developments were operated, only 8 of the 15 sponsors actually were managing the completed developments themselves or through closely associated subsidiaries. In the other cases, the sponsors and/or residents had concluded that management of the properties would be best handled through an outside firm. This was a striking finding: management fees are a potential source of operating revenues for the nonprofits, yet many were willing to forego this income in the interest of improved property management. However, even when third-party management firms were utilized, the property owner (nonprofit or cooperative) did control the major management policies.

While a majority of the 15 nonprofits operated various service programs in addition to their development activities, overall the services offered exclusively to residents of the developments were relatively modest, because even those nonprofit sponsors with extensive social services expertise and resources tended to offer the services on a community-wide basis. Sponsors of cooperative projects in the study provided coop training, but generally relatively few other tenant-specific services were provided. These included counseling, tenant organization, and a youth maintenance crew. Services provided to the wider community included social services programs, day care and elder care programs, and community planning and advocacy work. Although the residents of the developments would not benefit *exclusively* from these services, the common pattern of siting these services in or near the projects increased the tenants' access to them.

DEVELOPMENT COSTS FOR Nonprofit AND FOR-PROFIT PROJECTS

As mentioned previously, one task of the study was to begin to address the issue of comparative nonprofit versus for-profit costs for the development of comparable packages of housing services.

In addition to the small, non-random sample of nonprofit projects studied, the research was limited by several constraints in performing a thorough and valid comparison of costs:

- The study made no provision for correspondingly comprehensive data collection for similar actual for-profit projects;

- Although the data collection instrument did capture information on the physical characteristics of the nonprofit projects, the study did not have the resources for the extensive data on building specifications, construction techniques, and materials that would be necessary to do a *precise* build-up of estimated costs using industry standards (particularly for the rehabilitation projects which differed dramatically in scope of work); and
- Aside from direct construction costs, reconnaissance indicated no industry standards generally applicable to total development cost or its components, such as for pre-development costs, legal and organizational costs, and marketing, for example.

Nonetheless, as part of the study, a *rough comparison* with industry standards was made for development "hard costs" for the six new construction projects examined.

Actual Construction Costs Versus Industry Norms

For such construction "hard costs," the R.S. Means Construction Cost indices were used to compute the nominal industry costs per square foot for the study projects, using basic information on project location, type and size of building, and type of exterior wall. (Again, note that these metropolitan-wide construction cost averages may not reflect typical construction costs for difficult urban affordable housing sites.) *The actual per-square-foot construction costs for the new construction study projects ranged from 20 percent above to 20 percent below the nominal industry costs for the specified location, type and size of building.* This variability relative to construction costs is not unlike what one might expect to see from a similar sample of for-profit projects.

Additional Observations Regarding Cost Comparisons

Despite the absence of a statistically reliable framework for comparison, the study also utilized observations from the 15 nonprofit projects to speculate on major cost elements where the nonprofit and for-profit experience might differ. For example, the average pre-development period for the 15 nonprofit projects was 29.3 months, or 2 1/2 times as long as the mean construction period (11.7 months). This prolonged pre-development period was due to the nonprofits' lack of up-front capital and dependence on multiple funding sources (particularly public funding sources where the approval processes were slow), and led to higher development costs. A for-profit (or indeed a nonprofit) project able to secure funding more readily from a

small number of sources could be expected to have a shorter and less costly pre-development period.

The majority of the nonprofits in the study were given property at a discount, which might not have been available to a for-profit counterpart. In addition, because of the distressed nature of some of the nonprofit sites, a for-profit might be more hesitant to undertake projects in these more risky locations unless there were a greater than normal level of financial incentives or guarantees, which might itself lead to added costs.

All the nonprofits in the study also received below market interest rates (BMIR), primarily from public sources of funding. Although these funding sources might be willing to provide BMIR loans to for-profit developers for similar affordable housing efforts, only 51.7 percent of the sampled (primarily for-profit) projects in ICF's 1987 Tax Credit study reported such below market loans. Therefore, the availability of these BMIR loans might reduce the out-of-pocket financing costs of nonprofits relative to many for-profits. On the other hand, for-profit developers who were not dependent on public funding sources potentially could experience significantly lower construction costs by avoiding Davis-Bacon prevailing wages or some of the special requirements which come with local public funding, such as hiring targets.

Finally, the 15 nonprofits in the study realized an average cash payment of developers overhead/fees equivalent to 3.9 percent of development costs, as compared to the 9.5 percent average for the ICF 1987 Tax Credit study involving largely for-profit projects. Therefore, it appears that this cost category may be less expensive in nonprofit projects, although whether the actual fees received are sufficient to optimize nonprofit organizational capacity is in question.

In considering the question of comparative costs, it is also important to recognize that while the study focused on nonprofit development, because of the prevalent use of Tax Credits, most of the projects examined were actually hybrid *nonprofit/for-profit* efforts. The financial profile of these projects was driven in large part by the nature of the Tax Credit device. As previously noted, the wide variation in the study's per unit costs for these projects suggests that the structure of the financing may be as important as any cost differentials due to nonprofit versus for-profit development approaches.

FURTHER RESEARCH

In addition to confirming the feasibility of systematic collection and analysis of cost and funding data and yielding hypotheses regarding underlying patterns of nonprofit development, this study also identified a number of promising areas for future research. To provide a sampling frame for drawing statistically representative samples of projects for future studies and to test the hypotheses about nonprofit development, *a publicly available national database on nonprofit sponsors and projects needs to be developed.* Study of a larger group of projects, drawn as a statistically representative sample, would allow a fuller explanation of the variation in the development costs of nonprofit sponsored projects.

It is also important to recognize that development period finances are only a part of the overall financial picture of housing projects; *the other half of the picture relates to the revenues and costs of on-going operations.* Research should address this operating experience, including exploration of the role played by pre-funded reserves, syndication proceeds, and operating subsidies in maintaining the viability and affordability of the projects, and of the interrelationships between development costs and operating expenses. Another important area for research is the Low Income Housing Tax Credit, given the prominent role played by Tax Credits in nonprofit projects, the variation in syndication expenses and development costs exhibited in the 15 case studies, and the impact of syndication proceeds in spanning both development and operating periods of projects. Such research should address the cost effectiveness of the Tax Credit.

There is also very strong interest in *further exploration of the comparative expenses of nonprofit versus for-profit affordable housing development.* A basic question is whether the costs to produce a defined package of housing services differ systematically for nonprofit and for-profit sponsors. The overall pattern of costs among the 15 projects suggests that the variance among the nonprofit project costs might be at least as large as any variance in costs between nonprofit and for-profit projects. Table S-4 suggests that in Boston, the range of costs for nonprofit and for-profit projects may be similar. Therefore some of the higher cost levels observed in our study may be more a function of local development conditions and requirements rather than systematic differences in nonprofit versus for-profit comparative efficiencies. Further research should address specific elements of costs as they are affected by construction differences and special demands of the particular site.

To compare the costs of nonprofit and for-profit development of affordable housing, several useful steps could be taken. The most direct would acknowledge that the Low Income Housing Tax Credit is currently the primary incentive and subsidy mechanism for such housing. A large, statistically representative sample of Tax Credit projects, sponsored by a mix of nonprofit and for-profit entities, should be studied to see how the development cost differences *between* for-profits and nonprofits compare to those *within* these two types of sponsors. Another, less costly approach would be to select a group of for-profit projects that are suitable matches for these 15 nonprofit projects, and to replicate the data collection and analysis for them. Given the number of factors that can affect development cost, it is not clear that suitable matches could easily be found.

Alternatively, collection of detailed data on the *physical characteristics* of projects for a sample of nonprofit developments would provide a basis for precise build-ups and comparisons with published industry construction cost standards for both new construction and substantial rehabilitation. However, our observation of the significant variation in non-construction costs suggests that a broader approach (encompassing all the development cost elements in the framework) will produce more satisfactory guidance for policymakers interested in production of affordable housing.

Finally, continuing research is needed on the larger questions of the role of affordable housing production (in comparison with tenant-based assistance) in meeting the housing needs of the eligible population and in contributing to community stabilization and development.

CHAPTER 1

INTRODUCTION

This report presents the results of a research effort to (1) design a framework for collection of costs and sources of funding for affordable housing projects developed by nonprofit organizations, (2) apply the framework to 15 illustrative projects selected in 5 U.S. metropolitan areas, and (3) analyze the resulting data.

1.1 Research Context

The Federal government's interest in the capacity of nonprofit organizations to produce and manage affordable housing has been elevated by the special role identified for such organizations in recent legislation. For example, the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) of 1989 calls for offering nonprofit organizations the right of first refusal to purchase distressed savings and loan (S&L) properties from the Resolution Trust Corporation (RTC). Similarly, the Low Income Housing Preservation and Resident Homeownership Act of 1990 provides for favored treatment for nonprofit organizations in extending the period of affordability of federally-subsidized, privately-owned housing. Likewise, the McKinney legislation and HOPE program envision an active role for nonprofit organizations. The HOME program component of the 1990 National Affordable Housing Act also requires a set-aside of at least 15 percent of funding allocations for community-based housing development organizations (CHDOs), a particular form of nonprofit.

Although nonprofits have been involved in housing development for three decades, to date there has been no systematic examination of the financing approaches they utilize or the costs they have experienced with various financing mechanisms. There also has been only limited research on the benefits realized from subsidies and contributions in terms of the affordability of housing developed by nonprofits, or on the impact that these organizations' non-development activities have had on the success of their housing projects and the health of the neighborhoods they serve.

Until recently, nonprofits as a group were perceived as being a comparatively small factor in U.S. housing production relative to for-profits; they were therefore seen as warranting little attention. Although somewhat offset by the Low Income Housing Tax Credits (LIHTC),

tax reform in 1986 and other changes in federal housing policy eliminated many of the incentives for the involvement of for-profits in production of affordable housing. In fact, the Tax Credit legislation included a requirement that State Credit Agencies set aside at least 10 percent of their credits for allocation to qualified nonprofits. However, nonprofits continued to be perceived as well-intentioned but unsophisticated in the complexities of development.

In addition, the significant range among the types of nonprofit organizations (e.g., single-purpose vs. multi-purpose, small area focus vs. regional focus), and the uniqueness of the financing packages often put together by these organizations, were seen as making the task of structuring systematic, comparative research more difficult. Such research, however, is critical to enable HUD to judge accurately the capacity of nonprofits to assume an expanded role in housing development. It will also help identify any resources that nonprofits may need to accomplish this goal.

This study developed the necessary tools for comparative research on development costs. Specifically, the research was intended to develop and test, on a small selection of projects, a framework for collecting costs and funding data for a variety of nonprofit housing developments. In addition, although the study was viewed as exploratory and its findings are preliminary, it was anticipated that this work would be able to identify some of the more pressing issues upon which subsequent, more systematic research should focus.

A final methodological issue concerns the conclusions that can be drawn from this study. For example, it was appreciated that by restricting the focus of the study primarily to the development period, some critical factors in the long-term financial viability of the projects (such as ongoing operating subsidies) would not be addressed. To achieve a complete picture of the finances of a project, both its development and operating budgets must be examined and their interrelationships understood. A systematic analysis of the operating costs, revenues, and subsidies for each project was beyond the scope of this study. Second, it bears reemphasis that, while the cost findings reported here may be illustrative, they are not statistically representative of nonprofit development costs in the selected metro areas *or* nationwide.

1.2 Research Objectives

The study had three primary objectives: development of a comprehensive cost and funding framework, use of the framework to collect data on 15 illustrative projects, and analysis

of the data to evaluate the usefulness of the framework and to make preliminary observations about patterns of costs and funding and their impacts as well as developing observations about possible implications for development costs by for-profit sponsors. The intent was to develop a framework useful for further study.

The study objectives thus can be summarized as follows:

1. Develop a framework for documenting the costs and funding of housing development carried out by nonprofit organizations, which:
 - Is applicable to a wide range of nonprofit housing developments.
 - Is capable of representing the complete hard and soft costs of development.
 - Identifies all funding by principal sources, including funding from charitable sources, grants, subsidies, and market-rate loans.
 - Allows for standardizing costs by region, time, housing type, and housing unit size.
2. Select 15 projects in 5 metropolitan areas that are illustrative of the range of development types among nonprofit sponsors of affordable housing.
3. Apply the cost and funding framework to conduct the case studies on the selected nonprofit housing development projects. For each project, these case studies must:
 - Use the framework to collect all cost and funding data.
 - Gather data on rent levels or sales costs.
 - Produce a succinct narrative description of the nonprofit sponsor's other non-development activities.
4. Analyze the collected data and experience with the 15 case studies to:
 - Normalize the project cost data for location, year of completion, housing type, and building size and type.
 - Identify the range of experiences and possible cost or funding patterns among the selected nonprofits (to assist with determining future resource requirements).
 - Estimate the impact of subsidies, contributions, and donations on rent level/sales price and housing affordability for low-income households.

5. Assess the capacity of the data collection instrument/methodology to capture consistent and complete cost and funding data, and its utility in various organizational and project settings.

A further objective was to draw out possible implications for the costs for the comparable affordable housing developments under for-profit sponsorship. This objective has been severely constrained for a number of reasons. A fundamental reason is that the 15 nonprofit projects were not randomly selected and are too few to be statistically representative of the universe of nonprofit projects. While there are some limited industry norms available for basic construction cost categories (e.g., R.S. Means indices), a comparison between an unrepresentative sample of nonprofit projects—for which every direct and indirect expense had been identified and factored into total costs—and development cost build-ups based on theoretical industry averages for a limited set of basic cost categories would be statistically unreliable and potentially misleading. In addition, although the comparison could be approached by finding comparable for-profit projects in the selected neighborhoods, the study made no provision for comprehensive data collection or analysis of parallel for-profit projects. It is also unclear whether identifying comparable for-profit projects would be possible in all cases, given that many nonprofit projects are, according to some observers, located in neighborhoods which nonprofit sponsors claim have been avoided by for-profit developers.

Nonetheless, the study provides some information that sets the context for an improved understanding of the cost and funding differences between nonprofit and for-profit housing development. Using for-profit industry costs standards for new construction, the study computed the per-square-foot amounts for construction "hard costs" for the six new construction projects in the nonprofit sample. While this analysis does not go as far as a build-up and comparison of full development costs, it provides a picture of the range of variation around the industry norms for direct construction costs experienced by this small, non-random sample of nonprofit projects. In addition, throughout our analysis of the factors affecting development expenses observed in the 15 nonprofit projects, commentary is offered on whether a for-profit sponsor might have incurred higher or lower costs in connection with each cost element, given the nature and location of the project. In the course of the study, we also have carefully examined existing sources of comparable data on for-profit multi-family housing development, as well as approaches to structuring methodologically reliable comparative research, and have offered our observations in these areas as well.

1.3 Organization of this Report

The remainder of this report is organized into the following sections:

Chapter 2 presents an overview of the research approach, including a brief description of the overall research design, the development of the cost framework and data collection instrument, the selection of MSAs and specific nonprofit development projects, the pre-testing of the framework and data collection methodology in four pilot cases, the data analysis and normalization methodology, and the use of a panel of experts for review and feedback at various stages in the research.

Chapter 3 describes the basic characteristics of the sponsoring nonprofit organizations and of the 15 housing development projects selected for the study, including organizational focus and scope of services, past development experience of sponsors, relationship of sponsor experience to length of development period and development productivity, prototype patterns of development, impact of funding sources and available subsidies, and the role of experienced developers as mentors.

Chapter 4 presents the study's analysis and findings regarding the sources of funds in the 15 projects, including the breakdown among cash equity, debt financing, and non-cash contributions (including estimations of the net present value of the contributions received by the projects).

Chapter 5 details how the development funds were used, with a discussion of the various components of development costs, the contributions of out-of-pocket expenses and non-cash resources to the calculation of full development costs, and the elements of nonprofit costs that might differ under a for-profit scenario.

Chapter 6 examines the initial rent and affordability levels achieved by the 15 nonprofit projects.

Chapter 7 presents recommendations for areas for additional research, including further refinements to the analysis methodology, development of a national database of nonprofit projects, approaches to structuring for-profit/nonprofit comparative research, and examination of operating revenues and costs for affordable housing developments.

The main text is followed by five appendix sections.

Appendix A discusses in considerable detail the MSA reconnaissance and project selection process, including the threshold criteria for MSA review and site selection, the primary

variables controlled among the case studies, and other attributes of interest which were examined as part of the selection process.

Appendix B provides a detailed description of the process through which the cost and funding framework was developed and refined, as well as the methodology which was followed in normalizing and analyzing the collected data. *Appendix C* includes an assessment of the experience in applying the cost and funding framework in the 15 sites and the framework's utility in capturing the desired data. *Appendix D* contains a copy of the complete Data Collection Instrument/Costs and Funding Framework employed in the case studies, along with instructions for its use.

Appendix E is separately bound as Volume 2 and contains the case study narratives for each of the 15 selected nonprofit projects, including exhibits summarizing all financial sources and uses for the individual developments. A brief explanation of the items and assumptions included in these exhibits is provided at the beginning of Appendix E.

CHAPTER 2

RESEARCH APPROACH

This chapter provides an overview of the development and implementation of the research methodology for this study of nonprofit housing development costs and funding. A short description of each component of the research design is presented, along with a brief discussion of related issues. More detailed documentation of the process of developing and applying the research methodology can be found in Appendices B, C, and D.

2.1 Elements of the Research Design

The research design for the study encompassed three major tasks. The first task was the development of a cost and funding framework for collecting data on complete costs and funding associated with nonprofit affordable housing development. The second task involved the application of the cost and funding framework, with associated data collection methodology, to a purposively selected sample of 15 nonprofit sponsored housing development projects. The third and final task was to normalize the information on costs collected from the 15 projects for differences in location, year of completion, housing type, and building size and type in order to permit cross-project comparisons, as well as to analyze the resulting data and develop from them preliminary hypotheses about patterns of nonprofit housing development.

2.2 Key Issues in Developing the Cost and Funding Framework

A fundamental motivation for performing this study was the lack of a systematic framework for providing a *comprehensive picture of the complete costs and funding* of nonprofit affordable housing development. A review of cost accounting frameworks in current use by both nonprofit and for-profit developers revealed that there was no established convention for reporting development costs and funding sources. The challenges in developing such a framework were numerous. For example, the range of possible sources of funding utilized by nonprofits (both cash resources and non-cash donations or "in-kind" contributions) was anticipated to be broad, probably much more diverse than the financing typically employed by for-profit developers. In addition, it was anticipated that, for many nonprofit projects, complete cost and funding data would not be available. Due to limited staffing capacity, nonprofits could

not be expected to maintain costs records beyond those required by funding sources, and no single entity was likely to require a *full* accounting, particularly around the value of non-cash contributions.

The cost and funding framework, therefore, had to:

- Capture data on the value of all forms of assistance (both cash and non-cash resources);
- Collect data on complete hard and soft costs of development;
- Be sufficiently flexible to allow reallocation of costs to different categories, to reflect variations in how nonprofits categorized costs and to permit a variety of analyses and comparisons to be performed; and
- Be robust with regard to missing data.

2.3 The Framework for Collection of Costs and Funding Sources

The cost and funding framework developed in this study offers a common basis for analyzing affordable housing developments, and could be applied to for-profit developments as well. Appendices B through D provide a detailed description of the process of developing the framework and its utilization in the 15 case studies, as well as presenting the final form of the framework and associated data collection instrument (along with instructions for their use).

To deal with the design criteria identified in the previous section, the framework employs a *nested hierarchical structure*. This approach allows the capture of data on costs and resources at either a very fine or very aggregate level of detail, depending on the information available at the nonprofit sponsor/project. In the hierarchical structure, costs are broken down according to *general phases* in the development process (e.g., pre-development planning, construction, lease-up), and further broken down by *12 major cost elements/groupings*. The major cost categories, which were defined through the review of existing cost accounting classifications used by developments, are:

- Planning and Design
- Acquisition
- Finance/Carrying Charges
- Relocation
- Construction
- Real Estate Taxes
- Marketing

Reserves
Legal and Organizational (including the costs of Development Consultants)
Developer's Overhead/Staff
Developer's Fee
Syndication Costs (if applicable).

The major cost categories are further broken down by *specific tasks or activities* (e.g., sewer and storm drainage fits under Construction)..

The diverse sources of support available to the nonprofit projects are organized according to *type of resource* (equity, debt, and non-cash contributions). Because capturing the value of contributions and non-cash elements is vital in order to derive a *comprehensive* picture of development costs, the framework identifies two potential categories for every funding source and element of cost:

- **Cash** sources of funds and out-of-pocket elements of cost are those elements, including loans, grants or cash contributions, for which cash actually changes hands or something of specific value was credited to the project.
- **Non-cash** elements are funding or development cost elements of value to the project but not realized or spent in cash, such as the value of uncompensated services, waived fees, interest subsidies, or donated land. (Appendix B provides a full explanation of how the value of the various forms of non-cash contributions was derived).

For the individual case studies presented in Appendix E, standard exhibits were developed to summarize the financial data for the projects. On the following page is the format for Exhibit 1 for the 15 case study projects. In this exhibit, total cash sources of funding must equal total out-of-pocket expenses, and total non-cash funding must equal the uses covered by the non-cash sources. Total funding includes the non-cash sources, and *full development costs* include the non-cash cost elements.

2.4 The Data Collection Instrument and Methodology

The cost and funding framework was incorporated into a multi-part questionnaire to be completed for each development under study.

The data collection instrument used for the 15 case studies consisted of 5 major sections (see Appendix D for the complete instrument). The first section was designed to capture basic data on the organizational characteristics of the nonprofit sponsor. The second section focused

Insert Exhibit 1

on characteristics of the housing project. The third section addressed characteristics of the development process. The fourth section of the data collection instrument contained the cost and funding framework, along with interview guidelines prompting the respondent to clarify and elaborate on the responses about financing and expenses. The fifth section concentrated on ongoing operations of the project, including the non-development activities conducted by the nonprofit sponsor.

The research design for data collection had to address the concern that the nonprofit sponsor's staff might well be reluctant to participate in the research effort—due to limited personnel capacity—unless a very small time commitment on their part was involved. Therefore, the original data collection methodology stipulated that the nonprofit sponsors would be requested to forward available reports and cost certifications to the research staff prior to the site visits. The data collection methodology was designed so that the review of these documents, as well as extensive on-site project file reviews prior to any interviews, minimized the time required of nonprofit staff.

The experience with testing the data collection instrument and methodology in four pilot cases (two projects each in Boston, MA and Washington, D.C.) resulted in some revision of how the subsequent 11 case studies were approached. The pilot cases demonstrated that the files the nonprofits kept on their projects were often voluminous. Although the nonprofits still were requested to forward copies of documents that would provide a very basic overview of the organization and its development project, in the post-pilot case studies less attention was devoted to obtaining and assessing documents prior to the site visit, and more emphasis was placed on the on-site project file reviews. The first day to day-and-a-half of each visit was thus allocated to an on-site review of the project files by the research staff. The remainder of the 2 to 2½ day site visit was spent in interviews with the main actors in the development team (such as the nonprofit's CEO or project manager, development consultant, and architect) and in visiting the development itself. In most cases, the file documents presented a much greater level of detail and precision than the recollections of the interviewees could match. Follow-up telephone interviews were utilized to talk with any individuals not reached during the site visit, to fill any gaps in the project information, and to resolve discrepancies that came to light when the collected data were being analyzed.

2.5 Site Selection

The case study selection process (as further detailed in Appendix A) used a two-stage reconnaissance. First, Metropolitan Statistical Areas (MSAs) with a significant level of nonprofit housing development activity were identified. Then, after a geographically diverse subset of MSAs was selected, the nonprofit organizations within these MSAs were canvassed to identify specific projects for possible inclusion as case studies.

Five MSAs were chosen—*Boston, Washington, D.C., Chicago, Kansas City (Missouri), and San Francisco/Oakland*—with three nonprofit projects studied in each. Because each of the development projects is the subject of a case study (provided in Volume 2, Appendix E), they are sometimes referred to as the "case studies."

Although it had been hoped that the study could focus on "typical" nonprofit housing developments, no national database exists from which to determine in a statistically reliable way what constituted a typical nonprofit project. Lacking such a resource, it was decided that projects would be selected based on a combination of common attributes ("threshold criteria") and other attributes for which some variation would be sought. The *threshold criteria* were:

- All projects were developed by a nonprofit organization;
- All completed projects were privately held (either by the nonprofit sponsor, a limited partnership, or a cooperative);
- In each project, at least half of the units were allocated for lower-income households (households with less than 80 percent of the median income for the area);
- All projects involved family housing (and all but one of the selected projects involved multi-family housing);
- The projects were completed within the last three to four years (1988 to 1991); and
- The projects all involved some form of Federal assistance.

Once these threshold criteria were satisfied, prospective projects were examined to ensure a good distribution in the overall sample for three other attributes specified by HUD: sponsor's prior development experience (novice or experienced), development approach (new construction versus substantial rehabilitation), and ownership type (rental versus cooperative). These additional attributes had been identified through review of the literature and discussions

with practitioners as potentially the most important for the identification of common nonprofit project scenarios and for an initial examination of variations in development costs. In addition, although the selection process did not formally control for size of project, the preferred size of individual projects was 30 or more units—and ideally 50 or more units—in order to observe possible economies of scale.

While an effort was made to ensure a good distribution of cases relative to these attributes, the developments that were ultimately selected are by no means statistically representative of nonprofit projects. This small, non-random selection of case studies does not allow for generalizations about overall nonprofit behavior or typical nonprofit cost and funding patterns, nor about causal relationships affecting the patterns observed. The principal utility of the cases studies was as a test of the application of the cost and funding framework and collecting preliminary data patterns. The cases provide rich data on the range of inputs and outputs utilized by the 15 projects, from which we can derive interesting hypotheses and promising avenues to pursue in subsequent research.

2.6 Normalization and Analysis

A series of analyses were performed on the data collected for each of the 15 selected projects. The results of these analyses are included in each of the case studies found in Appendix E as Exhibit 2, the general format for which appears on the following page.

Once a full development cost was derived for a nonprofit project, this figure was normalized to permit cross-project comparisons among developments of the same building type and across the entire sample. The normalizations (with and without land costs) were performed utilizing the location and annual factors contained in R.S. Means's *Square Foot New Construction Costs (1991)*, to create costs adjusted relative to a development completed in Washington, D.C. in January 1991.¹

Because the projects differed in scale and in the mix of units, to further facilitate comparisons a *standard unit cost* was calculated for each development. This was done by calculating for each project an equivalent number of average-size two-bedroom (2BR) units,

1. Although the R.S. Means location factors apply only to construction costs for new construction, we have applied them to full development costs for all 15 projects. We have used the same year figure from R.S. Means whether the project was completed in January, December, or any time in between.

EXHIBIT 2
Summary of Financial Data Analysis

Housing Development

		%
CASH EQUITY	\$0	0.0%
DEBT FUNDS	\$0	0.0%
NON-CASH RESOURCES	\$0	0.0%
TOTAL RESOURCES	\$0	0.0%
Percent Public Resources	\$0	0.0%
Percent Private Resources	\$0	0.0%
OUT-OF-POCKET COSTS	\$0	0.0%
VALUE OF SUBSIDIES AND DONATIONS	\$0	0.0%
FULL COST (Including Subsidies and Donations)	\$0	0.0%
<u>COSTS BY CATEGORY</u>		%
Planning and Design	\$0	0.0%
Acquisition	\$0	0.0%
Finance/Carrying Charges	\$0	0.0%
Relocation	\$0	0.0%
Construction	\$0	0.0%
Real Estate Taxes	\$0	0.0%
Marketing	\$0	0.0%
Reserves	\$0	0.0%
Legal and Organization (including Development Consultants)	\$0	0.0%
Developer's Overhead/Staff	\$0	0.0%
Developer's Fee	\$0	0.0%
Syndication Costs	\$0	0.0%
TOTAL	\$0	0.0%
LAND COST ESTIMATED	\$0	
TOTAL LESS LAND COSTS	\$0	

	<u>Including Land</u>	<u>Without Land</u>
Normalized Full Cost (Location and Year)	\$0	\$0
Normalized Standard Unit Cost	\$0	\$0
Initial Rent	\$0	
Initial Rent as a Percent of FMR	0.0%	
Initial Standardized Rent	\$0	
Initial Standardized Rent as a Percent of Median Income	0.0%	
Affordability Level	0.0%	
Required Rent if Fully Market-Financed	\$0	
Percentage Increase Required Over Actual	0.0%	
Percentage Increase Required Over Tenant Payment	0.0%	
Present Value of Subsidies and Donations	\$0	

WORKSHEET

Housing Development

	<i>with land</i>	<i>without land</i>
<u>1. Normalized Full Cost</u>		
a. Full Cost	\$0	\$0
b. Time Factor	1	1
c. Location Factor	1.00	1.00
d. a*b*c	\$0	\$0
<u>2. Number of Standard Units</u>		
a. Total Square Feet	0	
b. a/844	0.00	
<u>3. Normalized Standard Unit Cost</u>		
a. 1d/2b	\$0	\$0
<u>4. Initial Rent as a Percent of FMR</u>		
a. Initial Rent (wgted by avg. unit size)	\$0	
b. FMR	\$0	
c. a/b	0.0%	
<u>5. Initial Standardized Rent as % of Mean</u>		
a. Actual Units	0	
b. Actual Units/2b	0.00	
c. b*Initial Rent (=Standard Rent)	\$0	
d. Median Income	\$0	
e. c/(Median Income/12)	0.0%	
<u>6. Affordability Level</u>		
a. Initial Standard Rent (5c)	\$0	
b. (a/.30)*12	\$0	
c. b/Median Income	0.0%	
<u>7. Required Rent if Financed</u>		
a. Full Development Cost	\$0	
b. Equity	\$0	
c. a-b=principal	\$0	
d. Debt Service at Market	\$0	
e. Monthly Operating Cost + Reserve	\$0	
f. d+e=Required Rent	\$0	
g. Percent Increase Required	0.0%	
h. Average Tenant Payment	\$0	
i. Percent Increase Required	0.0%	
<u>8. PV of Subsidies and Donations</u>		
a. Grants and Cash Contributions	\$0	
b. Non-Cash Contributions	\$0	
c. Diff. of PV of Actual & Market Loan	\$0	
d. a+b+c	\$0	

using the mean square footage for such a unit derived from a recent national study of HUD-insured multifamily housing.² The normalized full development cost was then divided by the number of standardized 2BR units in the development to yield a normalized standard unit cost. The analysis for each case also included a calculation of the *net present value of all subsidies and donations* received by the project during the development period.

For each case study, analysis of rent levels and affordability was also performed. As shown by the format for Exhibit 2, the rent and affordability analysis presents:

- Initial project rent as a percentage of local Fair Market Rents;
- Initial standardized rent (obtained by dividing initial rent revenues by the number of standardized 2BR units) as a percentage of median income for a family of four;
- Affordability levels, defined as the level of household income (expressed as a percentage of median income) that would be sufficient to ensure the initial rent did not exceed 30 percent of the household income; and
- Rent increases which would have been required had the subsidies not been available.

2.7 Use of Experts

In recognition of the importance of obtaining feedback from practitioners and other experts at each stage of the research, at the beginning of the study an informal review group was put together including nonprofit developers, prominent researchers on housing issues and nonprofit organizations, and representatives from national nonprofit support organizations. These individuals were asked to review and comment on draft versions of both the study's research design and the cost and funding framework/data collection methodology. Several of these individuals were also approached for assistance during the site selection process; they provided valuable guidance in identifying promising metropolitan areas and local contact persons. Several also reviewed the final draft of this report. Each of the case studies also was reviewed by a responsible staff member of the nonprofit sponsor or chief technical consultant.

2. *Current Status of HUD-Insured Multi-Family Rental Housing*, Abt Associates, Inc., Cambridge, Massachusetts (September 1992). The mean square footage was 844 square foot.

CHAPTER 3

CHARACTERISTICS OF NONPROFIT SPONSORS AND PROJECTS

This chapter describes the characteristics of the nonprofit sponsors for the 15 selected projects. It includes an examination of the organizational focus of the individual nonprofits, their previous experience in housing development, and the relationship of prior experience of the nonprofits to length of development period and overall development productivity. This chapter also surveys the non-development activities undertaken by the nonprofit organizations, with particular attention devoted to property management and tenant services offered by these entities.

Following the discussion of the nonprofit sponsors, the chapter examines some of the characteristics of the selected projects and the development processes they followed. It includes speculation regarding development patterns among MSAs, the role of funding sources and available subsidies, the influence of experienced local developers as "mentors," and the impact of state and local laws.

3.1 Sponsors of Selected Projects

The projects selected for study were:

<i>MSA:</i>	<i>Project:</i>	<i>Nonprofit Sponsor:</i>
Boston	Langham Court Cooperative	Four Corners Development Corporation
	Washington/Columbia	Codman Square Housing Development Corporation
	La Concha Apartments	Nuestra Comunidad Development Corporation
Washington, D.C.	Dorsey R. Moore Coop.	Manna, Inc.
	Florian Gardens Coop.	Project WISH, Inc.
	Renaissance Apartments	MUSCLE, Inc.
Chicago	Washington Boulevard Plaza on the Park II	Bethel New Life, Inc.
		Urban Development Corporation, Inc.
	Borinquen Apartments	LUCHA, Inc.

Kansas City	Blue Hill Take Part I Signal Hill Townhomes Quality Heights Homes	Blue Hills Homes, Inc. Westside Housing, Inc. Kansas City Neighborhood Alliance
San Francisco	Baywood Apartments Maria Alicia Apartments Frank Mar Community Housing	Eden Housing, Inc. Mission Housing Develop- ment Corporation East Bay Asian Local Devel- opment Corporation

Unless otherwise noted, the projects are listed in this order in the exhibits throughout the report. Exhibit 3.1 provides an overview of some of the characteristics of these nonprofit sponsors for the 15 housing development projects.

3.1.1 Sponsor Focus

The majority of the nonprofit organizations examined were neighborhood-based (11 of 15), with 1 organization having a city-wide focus and 3 organizations having a county-wide or metropolitan area focus. All 15 of the nonprofits were categorized as having a multi-purpose programmatic focus, although there was considerable variety in the extent to which the organizations engaged in non-housing development activities, and the types of activities undertaken.

The organizations seem to fall into three broad categories. Some of the sponsors started with a focus on advocacy, community organizing, and/or social services, and had retained a strong organizational commitment to such activities despite a growing housing development role. Probably the best example of this type is Project WISH in the Washington, D.C. MSA, but the Kansas City Neighborhood Alliance also seems to fit this model.

In contrast, other sponsors had been established primarily to carry out development activities, and though they may have expanded into other functions, these new areas were closely related activities such as property management. Eden Housing, Inc. in the San Francisco/Oakland MSA is a good example of this type. Also, the Codman Square HDC in Boston and East Bay Asian Local Development Corporation in Oakland seem to fit this category (although both these groups appear to be moving toward the third model, below).

Most of the organizations appear to fall into a third category, however. These nonprofits have been created with the expectation of a strong direct development function, but

Exhibit 3.1 - Project Sponsors

Sponsor/Project	Age of Organization	Production Experience		Service Area	Multi-purpose?
		Total ⁸	Past 5 yrs.		
1. Four Corners Development Corporation - Langham Court Coop.	5 years	84 units since 1987	84 units	Neighborhood	Yes
2. Codman Square Housing Dev. Corp. - Washington/Columbia (I)	11 years	505 units since 1982	305 units	Neighborhood	Yes
3. Nuestra Comunidad Development Corporation - La Concha Apartments	11 years	197 units since 1981	158 units	Neighborhood	Yes
4. Manna, Inc. - Dorsey Moore Coop.	10 years	300 units since 1982	171 units	Neighborhood	Yes
5. Project WISH - Florian Gardens Coop.	14 years	137 units since 1986 ⁹	90 units	Neighborhood	Yes
6. MUSCLE, Inc. - Renaissance Apartments	14 years	174 units since 1982	150 units	Metropolitan	Yes
7. Bethel New Life - Washington Blvd. Apts.	13 years	600+ units since 1979	approx. 500 units	Neighborhood	Yes
8. Urban Development Corp. - Plaza on the Park II	12 years	286 units since 1980	165 units	Neighborhood	Yes
9. LUCHA, Inc. - Borinquen Apartments	10 years	47 units since 1987	47 units	Neighborhood	Yes
10. Blue Hills Homes Corp.- Blue Hills Take Part (I)	18 years	194 units since 1974	74 units	Neighborhood	Yes
11. Westside Housing Organization, Inc. - Signal Hills Townhomes	19 years	262 units since 1973	105 units	Neighborhood	Yes
12. Kansas City Neighborhood Alliance - Quality Heights Homes	12 years	113 units since 1986	113 units	City-wide	Yes
13. Eden Housing Inc. - Baywood Apartments	24 years	1757 units since 1973	580 units	Metro/County	Yes
14. Mission Housing Dev. Corp. - Maria Alicia Apartments	21 years	440 units since 1972	112 units	Neighborhood	Yes
15. East Bay Asian Local Dev. Corp. - Frank Mar Community Housing	17 years	173 units since 1984	173 units	Metropolitan	Yes

8. Date provided indicates year in which organization began its first housing development project.

9. Prior to 1986, Project WISH was involved in two rehabilitation projects involving 146 units. In them WISH served as broker of AETNA financing but did not take a lead role as developer.

there also has been a recognition of the multiple needs of the communities they serve and a willingness on the part of the organization to undertake a broad variety of functions to meet these needs. The nonprofits fitting into this category include Four Corners Development Corporation and Nuestra Comunidad in the Boston MSA; Manna, Inc. and MUSCLE, Inc. in the Washington, D.C. MSA; Bethel New Life, Urban Development Corporation and LUCHA, Inc. in the Chicago MSA; Blue Hills Homes Corporation and Westside Housing Organization in the Kansas City MSA; and Mission Housing Development Corporation in the San Francisco/Oakland MSA.

Whether the nonprofit organizations were begun with an advocacy/service orientation or a development focus, the tendency over time seems to be for them to adopt a multi-faceted role in their communities. A more complete description of these various activities and their relationship to the development projects is presented later in this chapter.

3.1.2 Sponsor Experience

The period since incorporation for this group of nonprofits ranged from 5 to 24 years, with a median of 13 years and a mean of just over 14 years. In terms of their backgrounds in housing development, the sampled nonprofit sponsors ranged from 4 organizations with more than 15 years of experience to 3 nonprofits that had never undertaken a housing development project prior to the effort examined in the case study. The organizations' lifetime housing production totals for projects in which they served as primary sponsor/developer ranged from 47 units to 1,757 units. Among the projects studied, the lifetime production total mean was 351.3 housing units and the median was 197 housing units.

Over the past 5 years, these 15 nonprofits have completed a total of 2,827 housing units, averaging 37.7 housing units per organization per year. (Because we intentionally selected projects with 30 units or more where possible, the average annual production for the sample is somewhat larger than the figures reported by NCCED in their 1989 study of urban CDCs and their 1991 survey of community-based development organizations. These studies estimated the mean number of units completed per nonprofit per year at 30 and 26, respectively.)¹ Individual

1. "Against the Odds," NCCED, Washington, D.C., 1989 and "Changing the Odds: The Achievements of Community-based Development Corporations," NCCED, Washington, D.C., 1991.

nonprofit average annual housing production among the sample during this period ranged from 9.4 to 116 units per year, with a median average annual production figure of 30 units.

3.1.3 Relationship of Sponsor Experience to Length of Development Period and Development Productivity

The extent of prior housing development experience by the nonprofit sponsor had been expected to have an impact on the cost, length of development period, and overall productivity of the organization. It was anticipated, for example, that "novice" housing developers might take longer to build projects, incur higher costs, and demonstrate lower overall productivity than their more experienced counterparts.

Although the relationship of organizational expertise to cost will be addressed later in this report, Exhibit 3.2 presents data on relative length of the development process and overall housing development productivity for the sample, with the nonprofit organizations listed in order from least to greatest prior housing development experience. According to the information presented in this table, extent of prior housing development experience does *not* appear to correlate well with the length of the development period or overall housing development productivity within the sample.

There are several factors that could contribute to this finding. For one thing, the definition of "novice" could be misleading. For example, although the East Bay Asian Local Development Corporation had not previously done a housing development project, it had carried out a commercial project and had acquired significant development expertise as a result.

Moreover, and perhaps more important, a prevalent pattern among the case studies was for novice or less experienced nonprofit developers to receive extensive technical assistance from more experienced nonprofit organizations (or in one case, a for-profit developer). Sometimes the novice would take a more experienced organization as a partner in the project (Florian Gardens, Plaza on the Park II, and Quality Heights Homes); in other instances, a more experienced entity would serve as development consultant (Langham Court Cooperative and Frank Mar Apartments). In most of the Tax Credit projects examined, LISC's National Equity Fund, the Enterprise Foundation, the local LISC chapter, or an equivalent group such as the Boston Housing Partnership or The Community Builders would play a central role in structuring the project and securing of financing. Therefore, the prior experience of the nonprofit sponsor generally was not an accurate reflection of the expertise actually available. In fact, within the

Exhibit 3.2 Relative Experience of Sponsors

Nonprofit Sponsor/ Project Name (Ordered by prior production experience)	Housing Production Experience in Five Years Prior to Case Study Project	Length of Development Period for Case Study Project (pre-development through construction)	Housing Production Over Past 5 Years
1. Kansas City Neighborhood Alliance - Quality Heights Homes	None	25 months	113 units
2. Four Corners Development Corp. - Langham Court Coop.	None	54 months	84 units
3. East Bay Asian Local Dev. Corp. - Frank Mar Community Housing	None	82 months	173 units
4. LUCHA, Inc. - Borinquen Apartments	10 units	46 months	47 units
5. MUSCLE, Inc. - Renaissance Apartments	24 units	26 months	150 units
6. Nuestra Comunidad Development Corp. - La Concha Apartments	39 units	52 months	158 units
7. Project WISH - Florian Gardens Cooperative	47 units	17 months	90 units
8. Blue Hills Homes - Blue Hills Take Part I	75 units	14 months	74 units
9. Westside Housing Organization - Signal Hill Townhomes	75 units	55 months	105 units
10. Bethel New Life - Washington Blvd. Apts.	approx. 100 units	33 months	500+ units
11. Urban Development Corp. - Plaza on the Park	121 units	28 months	165 units
12. Manna, Inc. - Dorsey Moore Coop.	129 units	32 months	171 units
13. Codman Square Housing Dev. Corp. - Washington/Columbia (I)	200 units	51 months	305 units
14. Mission Housing Development Corp. - Maria Alicia Apts.	285 units	65 months	112 units
15. Eden Housing, Inc. - Baywood Apartments	628 units	35 months	580 units

group of 15, only 1 nonprofit organization (LUCHA) had very limited prior housing development experience—a single, 10-unit housing rehabilitation project—yet undertook the case study project on its own without a more experienced partner or mentor. This organization encountered significant difficulties in finding financing.

3.1.4 Other Activities by Nonprofit Sponsors

Exhibit 3.3 provides an overview of the activities beyond housing development being carried out by the 15 nonprofit sponsors from the case studies. The nonprofits are grouped by MSA, and the information about them is organized according to:

- The sponsor's role in the management of the completed housing development;
- The services that are offered by the nonprofit specifically to development residents;
- Other housing-related activities or community-wide services with which the nonprofit is involved; and
- Non-housing activities or community-wide services carried out by the nonprofit.

Management of the Developments

One of the rationales often heard in support of the involvement of nonprofits in affordable housing development is that, because they have an ongoing commitment to the residents and neighborhoods which they serve, such organizations generally can be expected to do a better job managing the properties in the tenants' interests on a long-term basis. Given this conventional perspective, it was surprising to find that only 8 of the 15 sponsors were managing their completed projects themselves or through closely associated subsidiaries.

All of the developments in the Kansas City and San Francisco MSAs were managed in-house or through subsidiaries of the nonprofit, as were single projects in Washington, D.C. and Chicago. In Boston, on the other hand, all three of the projects utilized unrelated third parties for property management of the developments. And in both the Washington, D.C. and Chicago MSAs, two of the three projects followed this pattern of unrelated third party property management. All three of the cooperative projects in the sample used outside property management firms.

Exhibit 3.3

Projects/ Nonprofit Sponsors	Non-Housing Development Activities by Nonprofit Sponsor			
	Directly Manage Completed Project?	Tenant Services	Other Activities/ Community Services - Housing	Other Activities/ Comm. Services - Non-Housing
1. Langham Court Coop - Four Corners Dev. Corp.	No (use another nonprofit)	Coop training	Advocacy for elderly public housing	Neighborhood clean-up; crime prevention; master planning; planning for employment and training
2. Washington/Columbia (I) - Codman Square HDC	No (use a for-profit)	Tenant organizer/resource specialist; youth maintenance crew	None	Commercial development as economic development strategy
3. La Concha Apts. - Nuestra Comunidad, Inc.	No (use a for-profit)	Tenant organizer; youth maintenance crew	None	Organized crime watch; food bank and farmstand; after-school day care; youth summer camp and summer jobs activities; newsletters; micro-loan revolving loan fund
4. Dorsey Moore Coop - Manna, Inc.	No (use a for-profit)	Coop training; home study center; day care	Homeownership training and support	Construction training; job search; commercial development as economic development and ET strategy; day care
5. Florian Gardens Coop - Project WISH	No (use a for-profit)	Coop training and continued TA	Founding partner of community land trust; housing-related community organizing and advocacy	Monitoring of CRA performance of local financial institutions
6. Renaissance Apts. - MUSCLE, Inc.	Yes	Community room/library with computers	Manages 49-unit condo which nonprofit also developed	DC public school "after hours" classroom
7. Washington Blvd. Apts. - Bethel New Life	No (use a for-profit)	None, other than rental asst. received by 7 tenants thru Bethel program	Administers rental assistance program	Chore and homemaker services; adult day care; health care clinic; WIC program; transitional living program; nursing home facility; literacy program; employment center; materials re- cycling program
8. Plaza on the Park II - Urban Develop. Corp.	No (use their for-profit partner)	None	Home repairs for elderly and disabled	Community planning, particularly for hospital facilities.
9. Borinquen Apts. - LUCHA, Inc.	Yes	None	Housing counseling; weatherization; home repairs for seniors; emergency home repairs	Sponsorship of block clubs

Exhibit 3.3

Projects/ Nonprofit Sponsors	Non-Housing Development Activities by Nonprofit Sponsor			
	Directly Manage Completed Project?	Tenant Services	Other Activities/ Community Services - Housing	Other Activities/ Comm. Services - Non-Housing
10. Blue Hills Take Part 1 - Blue Hills Homes Corp.	Yes	Tenant orientation	Management of projects developed by nonprofit	Community planning; administration of food stamp and educational services programs
11. Signal Hills Townhomes - Westside Housing Organization	Yes	None	Management of projects developed by nonprofit; energy audits and weatherization; home repair; tool lending library; neighborhood real estate brokerage; administration of revolving loan fund	Community planning and advocacy; referrals to social services agencies
12. Quality Heights Homes - Kansas City Neighborhood Alliance	Yes	Self improvement counseling and referrals; computer training	Management of properties in KCNA inventory; research and TA center for local CDCs	Coordination of roundtable meetings; newsletter center; clearinghouse for applications for neighborhood grant program
13. Baywood Apartments - Eden Housing, Inc.	Yes (thru nonprofit subsidiary)	Referrals to social services	Housing management	None
14. Maria Alicia Apts. - Mission Hsg. Dev. Corp.	Yes (thru for-profit subsidiary)	Community room; reading/after school program; referrals	Housing management	Social services programs; economic development
15. Frank Mar Community Hsg. - East Bay Asian LDC	Yes	None currently	Housing management	Economic and commercial development; currently constructing day care center in commercial space of Frank Mar

A closer examination of the experiences of the individual nonprofits, however, suggests that the decision whether to manage the completed development in-house, through a subsidiary, or through an unrelated third party is not necessarily indicative of the emphasis the nonprofit is giving to the importance of this function. For example, in Boston's Langham Court Cooperative, the third party property management entity selected was The Community Builders, the nonprofit that had served as the project's development consultant and had extensive experience in residential property management. The view was that The Community Builders could perform these management services much more effectively and efficiently than would have been possible with the fledgling Four Corner Development Corporation.

Nuestra Comunidad in Boston had been utilizing a for-profit property management firm for the La Concha Apartments throughout the rehabilitation process, although the nonprofit had not been completely satisfied with the firm's performance during this period. Nuestra Comunidad chose to replace this firm with another experienced for-profit property management company, which cemented its relationship with Nuestra Comunidad by successfully appealing to HUD for additional subsidies for the properties and allowances related to prior years. Interestingly, in its publications, Nuestra Comunidad frequently refers to itself as "managing" these properties, viewing the property management firm as simply another contractor.

The Codman Square HDC in Boston actually had originally been using a for-profit subsidiary to manage the Washington/Columbia (Granite - Phase I) development and its other properties. However, the HDC concluded that they "were awful at this [property management function]", particularly in addressing the serious drug and tenant accounts receivable problems initially confronting the completed development. Accordingly, in September 1990, the Codman Square HDC discontinued the operations of this subsidiary and hired a different and more experienced for-profit firm to manage their properties.

The experience of Chicago's Washington Boulevard Apartments appears to be similar to that of Boston's Washington/Columbia project, with Bethel New Life's for-profit subsidiary managing the development as well as the nonprofit's other properties until a decision was made to hire an outside management firm in late 1990. For Chicago's Plaza on the Park II Apartments, the nonprofit Urban Development Corporation utilizes the more extensive expertise and staff resources of its for-profit development partner, Eastlake Management and Development Corporation, for property management and marketing services.

The Florian Gardens Cooperative in Washington, D.C. provided another dimension to the decision as to why the nonprofit sponsors would choose not to manage the properties themselves. For Project WISH, community organizing, advocacy and empowerment activities appear to be the organization's main emphases. Although the organization was willing to serve as partner/developer to complete the cooperative's conversion and rehabilitation, WISH feels that serving as the ongoing property manager would conflict with its goals of tenant empowerment and would put a strain on its relations with project residents. For its part, the board of the Florian Cooperative concluded that property management for the completed development would be best handled by the for-profit firm that they selected, which happens to be the same company which manages the Dorsey Moore Cooperative.

Given the frequently critical shortages of funds faced by nonprofits and the potential income that they could derive from property management fees, it was notable that many nonprofits did not manage their properties, possibly in the interest of improved management and/or empowerment of the residents. It is also worth noting, however, that even when the nonprofit opted to utilize a third party for property management, the sponsor still generally maintained control over basic management policies concerning rent arrearages and collections, eviction procedures, and so on.

Moreover, in contrast to some of the examples cited above where the nonprofit opted to utilize an *outside* firm to upgrade management of its property, *in-house* management was sometimes seen by nonprofits as the strategy to improve operations at the developments. For instance, the Quality Heights Homes development in Kansas City was initially managed by a private management firm. However, because of a poor experience with this firm, the Kansas City Neighborhood Alliance decided to hire a member of the firm's staff to serve as the full-time property manager for this development and other properties in the nonprofit's inventory. Similarly, the East Bay Asian Local Development Corporation in Oakland obtained approval in the last year from its lender to take over management of the Frank G. Mar Community Housing development when it was concluded that the nonprofit sponsor could do an equivalent or better job of managing the property than the existing management firm.

Services for Tenants

Given the assumption that nonprofits would be more concerned about services for tenants than their for-profit counterparts, one of the interesting findings from the 15 case studies was that for the most part the nonprofits provided few if any "extra" services exclusively for their tenants. As shown by Exhibit 3.3, this pattern was even more pronounced for developments managed in-house or through subsidiaries than it was for projects managed through unrelated third parties. For example, among the eight developments managed by the nonprofit sponsor or its subsidiary, three indicated that there were no services offered specifically to tenants, and two more indicated the only service provided was an initial tenant orientation or referrals to other agencies. Among the other three projects managed by nonprofits, the additional services included the provision of a community room/library space, the operation of a reading/after school program, computer training, and a series of self-improvement/counseling activities.

In the seven developments where management was contracted to outside firms, only two projects indicated that no special services to tenants were offered, with the rest showing evidence of substantial ongoing commitments of resources for such things as cooperative training and technical assistance, tenant organizing, day care, a home study center, and maintenance crews consisting of youth from the development.

Two factors may help to explain this overall pattern. First, nonprofits that had a more narrow focus on development activities were more likely to be the organizations that managed the completed projects in-house or through subsidiaries. These development-focused entities were also less likely to have a social services orientation or expertise on staff, in contrast to those nonprofits that had expanded into a housing development role as a supplement to their community organizing or social services activities.

In addition, even those nonprofits with extensive social services expertise and resources tended to offer them on a community-wide basis. However, although the residents of the developments would not benefit from these services *exclusively*, the common pattern of the nonprofit to locate their service programs and other activities in or near the developments meant that the residents were often afforded greater access to services.

When the nonprofit provided services to tenants, it was rare for these services to be paid for out of the development budget. The exceptions to this rule tended to be in the case of

the cooperatives, where training of the residents to assume cooperative responsibilities was sometimes built into sponsor's staffing for the development (although it could come in the form of a non-cash contribution). All three of the Boston projects also received specific grants to provide services to tenants as part of the development budgets of these projects. For the most part, however, the nonprofits financed the services to tenants through the projects' operating budgets, or through grants received subsequent to development.

Before examining the range of nonprofit-sponsored community-wide services observed in the case studies, some mention should be made of the issue of security. Although perhaps not viewed as a "service" for residents, upgraded security was one of the significant benefits realized by tenants in many of the developments, and particularly in the rehabilitation projects. For example, in Boston's Washington/Columbia (Granite Properties - Phase I) development, increased security and an aggressive eviction effort to purge the newly-rehabbed buildings of drug dealers and problem tenants was critical in keeping the project from rapidly relapsing into crime-ridden and deteriorated structures. Although this effort has been successful to date, the project is saddled with an annual security budget estimated at \$120,000. This may be only a portion of the true cost since, as is also the case with Boston's La Concha Apartments, much of the tenant organizing and other service efforts put into the Washington/Columbia project also are directed at crime prevention and getting tenants to take some responsibility for conditions in the buildings.

None of the sampled nonprofits had completed formal evaluations of the impact of their tenant services on the developments studied.

Community-Wide Services Offered by the Nonprofit Sponsors

The services undertaken by the 15 nonprofit sponsors fall into two broad categories: housing-related and non-housing.

For housing-related activities, management of other properties was the most prevalent one found among the 15 nonprofit sponsors. Seven of the organizations performed this activity, five of them as their sole non-development housing activity. The next most frequently cited housing activity was home repair programs, which three organizations operated. Housing advocacy and weatherization services were evident in two nonprofits. Different nonprofits reported providing homeownership training, general housing counseling, housing development

research and technical assistance, management of a revolving loan fund, administration of a community land trust, provision of rental assistance services, and operation of a tool lending library. Two nonprofits reported conducting no other housing-related activities other than their development efforts.

Only one of the 15 nonprofits indicated no non-housing activities. Among the rest of the nonprofits, the range of non-housing activities undertaken covered a very broad spectrum.

Considerable emphasis was given to economic development activities, with six of the nonprofits indicating that they carried out or financed commercial ventures as part of a larger economic development strategy for the neighborhoods they served. Three of these six nonprofits also carried out employment and training activities, as did an additional two nonprofits. Three more nonprofit organizations operated literacy or other educational programs.

Four nonprofits in the sample were engaged in general community planning and advocacy activities. Two organizations provided resources for the production of community newsletters. Another nonprofit was active in monitoring the Community Reinvestment Act (CRA) performance of local financial institutions.

Two nonprofits cited their involvement in community-wide crime prevention activities. Two organizations were also involved in support of neighborhood block clubs and clean-up campaigns.

Four of the nonprofit entities were involved in day care, with one offering adult day care. The other types of services provided by individual nonprofits in the sample included operation of a health clinic and nursing home, chore/homemaker services, local administration of the WIC program, operation of a small neighborhood grant program for a local foundation, support of a food bank and farm stand, and provision of food stamps.

3.2 Characteristics of Selected Projects and the Development Process

Exhibit 3.4 below provides an overview of the individual case studies of affordable housing development projects. Overall, the 15 developments included 6 new construction projects, 8 projects with substantial rehabilitation of existing structures (over \$15,000 in rehabilitation per unit), and 1 project involving both new construction and rehabilitation.

Exhibit 3.4

Key Characteristics of the Projects

BOSTON MSA CASE STUDIES

	Langham Court	Granite Properties Washington/Columbia	La Concha Apartments
Location	Boston (South End)	Boston (Dorchester)	Boston (Roxbury)
Construction Type	New Construction	Substantial Rehab	Substantial Rehab
Tenure Type	Cooperative	Rental	Rental
No. Units	84	151	97
Low-income Set-aside/ Occupied	55 units (65%)	151 units (100%)	97 (100%)
Rental Assistance	28 (Tenant-based state and Section 8)	151 (Project-based Section 8)	97 (Project-based Section 8)
Pre-development Period	3 years	3 years	3 years
Construction Period	18 months	15 months	16 months
Sponsor	Four Corners Development Corp. w/Community Builders as key consultant	Codman Square HDC	Nuestra Comunidad Development Corporation
Sponsor Experience (5 years prior to project)	FCDC-0 units; Community Builders-1,000s	200 units	39 units
Ownership	Syndicated LP (LIHTC); FCDC for-profit spinoff is GP with coop expected to replace	Syndicated LP (LIHTC through Boston Housing Partnership)	Syndicated LP (LIHTC through Boston Housing Partnership)
Financing and Contributions	Donated land; Pre-development grant; State/local construction loans; Deferred developer's fees; Syndication proceeds; Private bridge loan; MHFA permanent loan; Operating subsidy loans	Donated land; MHFA construction loan; Syndication proceeds; MHFA Weatherization funds; Letter of credit	Donated land; Syndication proceeds; MHFA construction loan; City funds; MHFA permanent loan
Rents -- Carrying Cost	2 BR assisted - \$ 885 2 BR market - \$1,136 (Section 8 tenants pay 30% of income)	1 BR - \$ 908 2 BR - \$1,072 3 BR - \$1,335	1 BR - \$ 900 2 BR - \$1,061 3 BR - \$1,327 4 BR - \$1,484 5 BR - \$1,706
Occupancy Status	65% leased up	Full	Full
Other Development Issues	Lease up problems due to soft market	Drug/security problems; \$120K annual security budget	Syndication proceeds used primarily for soft costs
Services for Tenants	Coop training	Tenant organizer/resident resource specialist	Tenant organizer, youth maintenance crew
Community Services	Neighborhood clean-ups and crime prevention, advocacy for elderly public housing development, master planning for South End	Nonprofit sponsor largely focused on housing development; considering commercial ventures as a neighborhood economic development strategy	Food bank/farm stand, youth employment assistance, summer camp placement, micro-loan program, newsletter

Exhibit 3.4 Continued

WASHINGTON, D.C. MSA CASE STUDIES

	Dorsey R. Moore	Florian Gardens Cooperative	Renaissance Apartments
Location	Washington, DC (Anacostia)	Washington, DC (Brightwood)	Washington, DC (Southwest)
Construction Type	10 New Construction; 31 Rehab	Substantial Rehab	Substantial Rehab
Tenure Type	Cooperative	Cooperative	Rental
No. Units	41	43	36
Low-income Set-aside/ Occupied	41 units (100%)	Set-aside - 22 (51%) Occupied - Approx. 41 (95%)	Set-aside - 19 (51%) Occupied - 36 (100%)
Rental Assistance	8 Section 8; 13 Local; 16 Private Grant	Approx. 4-6 local	5 (Local)
Pre-development Period	2+ years	1 year	1.5 years
Construction Period	8 months	5 months	8 months
Sponsor	Manna, Inc.	Project WISH with The Florian Gardens Tenant Association	MUSCLE, Inc.
Sponsor Experience (5 years prior to project)	Approx. 129 units	FGTA—0 units Project WISH—2 projects, 47 units	24 units
Ownership	Nonprofit developed; 100% coop owned	The Florian Cooperative	100% Nonprofit Owned
Financing and Contributions	LISC feasibility loan; Construction: bank loan, equity from Manna's Capstone Fund, city loan, private grants; Permanent financing: FHLB loan, CDBG and other city loans, public and private grants, homeowners' equity	Acquisition: bank loan through LISC; Construction: bank loan, cooperative equity, and city funds; Permanent financing: city, grant from utility company, bank construction loan roll-over	Low cost acquisition; Construction: CDBG loan, donations, bank loan; Permanent financing: FNMA loan, CDBG, charitable grants
Rents -- Carrying Cost	2 BR - \$536 3 BR - \$638	1 BR - \$457 2 BR - \$517	2 BR - \$496 to \$560
Occupancy Status	Full	Full	Full
Other Development Issues	Major zoning approval issues, lien issues; fired GC	Delays in obtaining small, city rehab grant proved costly to project	Development phase delays in acquiring city owned properties and resolving lien problems
Services for Tenants	Coop training, day care center, community room/study center	Cooperative training, technical assistance by Project WISH	Community room/library with computers
Community Services	Construction training, homeownership training	Project WISH: Monitors lenders' CRA performance; founding partner of community land trust; organizing campaigns	Operates DC school "after hours" classroom in community room

Exhibit 3.4 Continued

CHICAGO MSA CASE STUDIES

	Washington Boulevard Apartments	Plaza on the Park II Apartments	Borniquen Apartments
Location	Chicago (West Garfield Park)	Chicago (South Side)	Chicago (North Side)
Construction Type	Substantial Rehab	Substantial Rehab	Substantial Rehab
Tenure Type	Rental	Rental	Rental
No. Units	51	57	37
Low-income Set-aside/ Occupied	51 (100%) 49	57 (100%)	37 (100%)
Rental Assistance	9 tenant-based Section 8 7 local tenant-based	Approximately 13 tenant-based Section 8	15 tenant-based Section 8 19 local tenant-based
Pre-development Period	2 years	1 year	3 years
Construction Period	9 months	16 months	10 months
Sponsor	Bethel New Life	Urban Development Corporation	LUCHA
Sponsor Experience (5 years prior to project)	Approx. 100 units	121 units	10 units
Ownership	West Washington Associates Limited Partnership through Chicago Equity Fund	Joint venture-UDC and Eastlake Management & Development	Borinquen Apartments Limited Partnership
Financing and Contributions	Construction and Permanent: bank loan, city loan, 2 bridge loans (LISC and Enterprise Foundation), LIHTC equity thru Chicago Equity Fund	Construction and Permanent: bank loan, Chicago Department of Housing, bridge loan from IL Housing and Development Authority, LIHTC thru Chicago Equity Fund	Construction and Permanent; loan from state and city, LIHTC thru Chicago Equity Fund
Rents -- Carrying Cost	1 BR \$350-385 2 BR \$410-435 3 BR \$450-460	1 BR \$400-415 2 BR \$475-500 3 BR \$525-560	\$464-525 for Sec. 8 units \$330-383 for other units
Occupancy Status	95% leased up	Full	92% leased up
Other Development Issues	Security during construction was significant expense	Initial income qualification problems resulted in too many over-income tenants for LIHTC requirements. Has now been remedied.	Delay due to difficulty in finding financing, relocation difficulties
Services for Tenants	None	None	None
Community Services	Senior services, health/family services, economic development	Elderly programs, community planning	Housing counseling, weatherization, home repairs, block clubs

Exhibit 3.4 Continued

KANSAS CITY MSA CASE STUDIES

	Blue Hills Take Part Project 1	Signal Hill Townhomes	Quality Heights Homes
Location	Kansas City, MO	Kansas City, MO (Westside)	Kansas City, MO (Wendell-Phillips)
Construction Type	Substantial Rehab	New Construction	New Construction
Tenure Type	Rental	Rental	Rental
No. Units	18 (2 buildings)	15	40
Low-income Set-aside/ Occupied	18 (100%)	15 (100%)	39 (98%)
Rental Assistance	0	0	0
Pre-development Period	8 months	4 years	17 months
Construction Period	6 months	7 months	8 months
Sponsor	Blue Hills Homes Corporation	Westside Housing Organization, Inc.	Kansas City Neighborhood Alliance, Paseo-Prospect Development Corp., and Wendell-Phillips Neighborhood Association (3 nonprofits)
Sponsor Experience (5 years prior to project)	75 units	75 units	None
Ownership	Blue Hills Take Part Limited Partnership. For-profit subsidiary as General Partner	Ownership: Signal Hill Limited Partnership. For-profit subsidiary as General Partner	Quality Heights Limited Partnership. For-profit subsidiary as General Partner
Financing and Contributions	National Equity Fund Pre-development loan; Construction and Permanent: bank loan; state Housing Development Commission; city Housing Development Corp and Information Center; community foundation	LISC/National Equity Fund pre-development and development bridge loan; Construction and Permanent: Bank loan, city Housing Development Corporation and Information Center, and state Housing Development Commission	LISC Acquisition/Pre-development loan; Construction and Permanent: LIHTC thru National Equity Fund, city loan, state Housing Development Commission, HODAG
Rents -- Carrying Cost	2 BR Parkside Bldg. \$200 Shelby Bldg. \$220	2 BR \$366 3 BR \$410	3 BR \$180-\$290
Occupancy Status	Full	Full	Full
Other Development Issues	Nonprofit was also general contractor	Long pre-development period due to delays finding affordable design and financing, obtaining variances and easements	Permit process was time consuming. City rescinded approvals of drainage lines, requiring additional engineering and construction
Services for Tenants	Tenant orientation	Nonprofit is property manager	Counseling and referrals
Community Services	Food stamp and educational service contract administration	Home repair, tool lending library, weatherization, community planning, advocacy, revolving loan fund	Homeownership and leadership training, community organizing, credit counseling, TA to other CDC's, computer training

Exhibit 3.4 Continued

SAN FRANCISCO/OAKLAND MSA CASE STUDIES

	Baywood Apartments	Maria Alicia Apartments	Frank Mar Community Housing
Location	Fremont, California	San Francisco (Mission)	Oakland (Chinatown)
Construction Type	New Construction	New Construction	New Construction
Tenure Type	Rental	Rental	Rental
No. Units	82	20	119
Low-income Set-aside/ Occupied	Set-aside - 66 (80%) Occupied - 90%	20 (100%)	119 (100%)
Rental Assistance	No project-based; some tenant-based Section 8	4 Project-based Section 8	A few tenant-based Section 8
Pre-development Period	2 years	4 years	5 years
Construction Period	11 months	17 months	22 months
Sponsor	Eden Housing Inc.	Mission Housing Development Corporation	East Bay Asian Local Development Corporation with Bridge as development consultant
Sponsor Experience (5 years prior to project)	628 units	285 units	None
Ownership	Baywood Associates Limited Partnership with Chevron Corp.	Maria Alicia Associates Limited partnership with Chevron Corp.	Frank Mar Associates Limited Partnership (EBALDC-land, commercial space, City—garage)
Financing and Contributions	City-owned land; Construction: bank loan and redevelopment authority; Permanent financing: bank, Limited Partner equity funds, redevelopment agency	City grant for land; Construction and Permanent: HODAG, city loans, bank loan, MHDC, limited partner equity	Construction and Permanent: bank loans, HODAG, city loans, EBALDC, limited partner equity
Rents -- Carrying Cost	Extremely Low Income: 2 BR/1 BA \$298 2 BR/2 BA \$315 3 BR/2 BA \$350 Very Low Income: 2 BR/1 BA \$367 2 BR/2 BA \$398 3 BR/2 BA \$425 < 60% of Median 2 BR/1 BA \$449 3 BR/2 BA \$557	1 BR - \$427 2 BR - \$479 3 BR - \$565 for LIHTC; \$1,009 for Section 8 4 BR - \$655 for LIHTC; \$1,128 for Section 8	LIHTC HODAG 1 BR \$405 NA 2 BR \$516 \$393 3 BR \$581 \$452 4 BR NA \$518
Occupancy Status	Full	Full	Full
Other Development Issues	Good relationship with city helped project go smoothly. Also, had city financing for pre-development costs.	Late closings, particularly on HODAG, and lack of pre- development financing were problems.	Delays in HODAG closing resulted in \$1 million additional interest costs.
Services for Tenants	Community building, referrals to social services	Reading/After School program, community room	Planning to subsidize on-site day care center to be run by Head Start and Parent/Child Development
Community Services	Affordable housing development and management only	Service coordinator, activities, programs, retail space	Economic, commercial development

Twelve of the projects are rental housing, and 3 projects are cooperatives.² Five of the rental projects were new construction efforts, and 7 were rehabilitation projects. One of the three cooperative projects involved new construction, one focused on rehabilitation, and the third included both new construction and rehabilitation.

The projects selected for this study ranged in size from 15 units to 151 units, with a mean project size of 59.3 units and a median of 43 units. One-third of the projects consisted of fewer than 40 units, one-third involved between 40 and 80 units, and one-third had more than 80 units.

The pre-development phase (generally, the period from the identification of the site to the start of construction) for these projects ranged from 8 months to 5 years, with an average pre-development period of a little less than 2½ years (29.3 months) and a median of 2 years. The construction period for the 15 projects ranged from 5 months to 22 months, with a mean construction period of just under 1 year (11.7 months) and a median of 10 months. The overall development period (pre-development plus construction period) ranged from 14 months to 82 months, with a mean of 41 months and a median of 35 months.

3.2.1 Prototype Patterns of Development and Metropolitan Area Patterns

One objective of this study was to begin to identify typical or prototype patterns of housing development by nonprofits, in order to guide future research and policy-making. We have already noted that, in attempting to identify patterns among the case study projects, the level of prior experience was not a good predictor of length of the development period or of overall productivity of an individual nonprofit in housing unit creation over the last five years. Within the group of projects selected, prior experience also appears generally to have had little impact relative to the size of the project or the development approach. For example, one might have expected that the nonprofit organizations with little or no housing development experience would undertake smaller rehabilitation efforts as a way to acquire expertise through involvement

2. However, one of these "cooperatives" is considered rental housing for Federal tax (and Low Income Housing Tax Credit) purposes. See the Langham Court case study in Appendix E.

EXHIBIT 3.5

BOSTON MSA CANDIDATE CASE STUDY PROJECTS

Project	Year completed	# units	Ownership Type		Development Approach		Subsidy Type		Sponsor Experience		
			Rental	Coop.	New construc.	Rehab	Federal	Non-federal	Novice	Experienced	
LANGHAM COURT -- Four Corners Development Corporation, Inc.	1991	84		X	X			Tax credit, CDBG	State HFA, State grant, City	X	
WASHINGTON/COLUMBIA (Granite Properties - Phase I) -- Codman Square Housing Development Corporation, Inc.	1990	151	X				X Sub rehab	HUD co-insured, Section 8, Tax credit	State HFA		X
LA CONCHA APARTMENTS - - Nuestra Comunidad, Inc.	1990	97	X				X Sub rehab	Sec. 8, CDBG, Tax credit	State HFA, City, public and private grants		X
Washington-Northhampton -- United South End/Lower Roxbury Development Corporation, Inc.	1991	54		X	X			Tax credit	State HFA, Natl. Hsg. Trust		X
Kilmarnock Street Apartments -- Fenway CDC	1988	55	X		X			Tax credit	State HFA		X

NOTE: Properties listed in upper case are those selected for case study.

Exhibit 3.5 (continued)

WASHINGTON, D.C. MSA CANDIDATE CASE STUDY PROJECTS

Project	Year completed	# units	Ownership Type		Development Approach		Subsidy Type		Sponsor Experience	
			Rental	Coop.	New construc.	Rehab	Federal	Non-federal	Novice	Experienced
FLORIAN COOPERATIVE -- Project WISH	1990	43		X		X Sub rehab	CDBG, RRP	Nat'l Coop Bank loan, City, LISC	X.....X (Less)
RENAISSANCE APARTMENTS -- MUSCLE, Inc.	1989	36	X			X Sub rehab	CDBG, FNMA loan	Charitable grants	X.....X (Less)
DORSEY R. MOORE (BOWEN ROAD) COOPERATIVE -- Manna, Inc.	1991	41		X	X	X	CDBG, Sec. 8	LISC, City, public and private grants		X
Euclid Apartments -- Jubilee Housing, Inc.	1990	59	X			X Sub rehab		Linkage/private		X

NOTE: Properties listed in upper case are those selected for case study.

Exhibit 3.5 (Continued)

CHICAGO MSA CANDIDATE CASE STUDY PROJECTS

			Ownership Type		Development Approach		Subsidy Type		Sponsor Experience	
Project	Year completed	# units	Rental	Coop.	New Construc.	Rehab	Federal	Non-federal	Novice	Experienced
BORINQUEN APTS. -- LUCHA, Inc.	1991	37	X			X	Tax credit, CDBG/RRP, Section 8	State, LISC	X	
WASHINGTON BLVD. PARTNERSHIP -- Bethel New Life	1990	51	X			X	Tax credit, RRP, Section 8	LISC and Enterprise		X
PLAZA ON THE PARK II - - Urban Development Corporation	1989	57	X			X	Tax credit, Section 8, CDBG/RRP	City and State		X
Diversey Apts.-- Hispanic Housing Development Corp.	1989	48	X			X	Tax credit	City		X
Guyon Apartments -- Bethel New Life	1988	114	X			X	Tax credit	City		X
Hamlin Partnership -- Bethel New Life	1988	31	X			X	Tax credit	City		X

NOTE: Properties listed in upper case are those selected for case study.

Exhibit 3.5 (Continued)

KANSAS CITY MSA CANDIDATE CASE STUDY PROJECTS

			Ownership Type		Development Approach		Subsidy Type		Sponsor Experience	
Project	Year completed	# units	Rental	Coop.	New construc.	Rehab	Federal	Non-federal	Novice	Experienced
QUALITY HEIGHTS -- Kansas City Neighborhood Alliance	1988	40	X		X		Tax credit, HODAG	LISC, State HFA, City	X (at the time)	
BLUE HILLS TAKE PART PROJECT I -- Blue Hills Homes	1990	18	X			X Subst.	Tax credit, CDBG	LISC, State HFA, Foundations		X
SIGNAL HILL TOWNHOMES -- Westside Housing Organization	1989	15	X		X		Tax credit, CDBG	LISC, State HFA, City		X
Blue Hills Virginia Wabash -- Blue Hills Homes	1991	6	X			X Subst.	Tax credit, CDBG	State HFA, Foundations		X
"Nautilus" WHO/TP-1 -- Westside Housing Organization	1991	10	X			X Gut	Tax credit (thru NEF), FDIC loan, RRP	Foundations		X

NOTE: Properties listed in upper case are those selected for case study.

Exhibit 3.5 (continued)

SAN FRANCISCO/OAKLAND MSA CANDIDATE CASE STUDY PROJECTS

Project	Year completed	# units	Ownership Type		Development Approach		Subsidy Type		Sponsor Experience	
			Rental	Coop.	New Construc.	Rehab	Federal	Non-federal	Novice	Experienced
FRANK MAR COMMUNITY HOUSING -- East Bay Asian LDC	1990	119	X		X		Tax credit, HODAG	City loans	X	
MARIA ALICIA APTS. -- Mission Housing Development Corporation	1989	20	X		X		Tax credit, CDBG, HODAG	City loans and grants, MHDC loan		X
BAYWOOD APARTMENTS -- Eden Housing Inc.	1990	82	X		X		Tax credit	City loans		X
Edgewater Terrace -- Ecumenical Association for Housing	1991	28	X		X		Tax credit	City and county funding, community foundations		X
Anisa Turina -- Ecumenical Association for Housing	1990	28	X			X	CDBG	State		X
San Antonio Terrace -- Oakland Community Housing, Inc.	1991	23	X		X		Tax credit	N/A		X
California Park Apts. -- Palo Alto Housing Corporation	1989	45	X		X		Tax credit	City donated land		X

NOTE: Properties listed in upper case are those selected for case study.

Exhibit 3.5 (continued)

MINNEAPOLIS/ST. PAUL MSA CANDIDATE CASE STUDY PROJECTS
 (N.B. This MSA was not selected as one of five metropolitan areas to be studied.)

			Ownership Type		Development Approach		Subsidy Type		Sponsor Experience	
Project	Year completed	# units	Rental	Coop.	New Construc.	Rehab	Federal	Non-federal	Novice	Experienced
Bradley Terrace -- Eastside Neighborhood Development Corp. 1	1991	30		X Lease Hold	X		Tax credit	LISC, City, State HFA	X	
Goodrich-Garfield Coop. - - West 7th Federation	1990	18		X Lease Hold	X	X	Tax credit		X	
Calypso Flats -- Whittier Alliance	1990	18		X Lease Hold		X Sub	CDBG, Tax credit	State, CED loan		X
Hamlin Town Homes -- Westminster Housing	1990	24	X		X		Tax credit			X very
Phillips Place Coop. -- Phillips Neighborhood Housing Trust	1989	23		X Lease Hold	X		HODAG, Tax credit			X very

in less technically demanding projects. However, there was no strong evidence of such a pattern among the 15 cases.³

Although the nonprofit's level of prior experience did not prove useful in suggesting prototype patterns of development, the research revealed that there may be typical development scenarios *associated with particular MSAs and/or regions*, as shown by the attributes presented in Exhibit 3.4 (Key Characteristics of Projects) and in Exhibit 3.5 (Candidate Case Study Projects). This latter exhibit presents the candidate projects that were recommended for the five selected MSAs, and the alternate MSA, Minneapolis/St. Paul.⁴ For the five selected MSAs, the first three projects shown in the exhibit (and printed in upper case letters) were the ones selected as the focus of the individual case studies.

While our MSA reconnaissance was not exhaustive, local patterns of multi-family affordable housing development appear to be quite striking, with major differences among MSAs. For example:

- In the *Boston MSA*, the site reconnaissance and selected case studies suggest that there are significant numbers of both new construction and rehabilitation projects for rental housing and for limited equity cooperatives. Tax credits appear to be a common element in project financing and are even included in projects designed for eventual cooperative ownership by tenants. Syndication occurs through several local groups, including the Boston Housing Partnership. The state Housing Finance Agency appears to be a frequent source of construction *and* permanent loan financing. The City of Boston also participates in some of the projects through donation of land, or awards of CDBG or linkage funds.
- In the *Washington, D.C. MSA*, reconnaissance suggested that rehabilitation is somewhat more common than new construction as a development approach. Like Boston, cooperatives and rental housing are both widespread in the District. However, unlike in Boston, Tax Credits do not seem to be frequently utilized, although the developer of one of the projects in the study also has recently completed a Tax Credit project. Instead, the most frequent form of Federal assistance is CDBG or Rental Rehabilitation Program (RRP) funding through the municipality. Permanent loans tend to be obtained through local banks (although some of these are available under the aegis of FIRREA, FNMA, or Community Reinvestment Act (CRA) programs).

3. As mentioned earlier, the tendency of non-profits to team up with more experienced organizations apparently mitigated the impact of a lack of prior development experience.

4. Kansas City was selected over Minneapolis/St. Paul because the former was the sole metropolitan region among the recommended list that was not perceived as a "high cost" area.

- In the *Chicago MSA*, a single model appears to be dominant. Every one of the six candidate projects identified involved substantial rehabilitation of rental property. All of the identified projects utilized Tax Credits, generally syndicated through the Chicago Equity Fund established by the Local Initiatives Support Corporation (LISC). To the extent these projects vary, it is in whether the project is receiving assistance from the city (usually in the form of CDBG or RRP funds) and/or the state Housing Finance Agency.
- In the *Kansas City MSA*, rental housing projects appear to dominate, and there is a mixture of new construction projects and rehabilitation projects. Tax Credits are a common part of project financing; for this MSA, they are usually syndicated through LISC's National Equity Fund. The state HFA is frequently a participant in construction and/or permanent financing. Similarly, the city often participates through CDBG or RRP funds awarded to the project.
- In the *San Francisco/Oakland MSA*, new construction of rental housing appears to be the principal development model. Again, Tax Credits are frequently used. All three of the case study sponsors were found to utilize the services of the same local nonprofit syndicator, and the syndication involved a single corporate investor in each instance. The city also commonly participates in the housing projects, in the form of CDBG awards or the municipality's own (e.g., tax increment) funds.
- Although *Minneapolis/St. Paul* was not selected as a case study site, the reconnaissance performed for this area identified a multi-family development scenario which is apparently characteristic of this MSA. In this MSA, lease-hold cooperatives are the most prevalent approach. New construction appears to be more commonplace than rehabilitation, but both types of projects appear to make frequent use of Tax Credits.

Although the reconnaissance was limited, the sample sizes very small, and the projects purposively selected, the case studies suggest that the local character of development also may hold for other attributes, such as size of projects. For example, projects in Kansas City tended to be of smaller size than the mean for the overall sample (with an average of 24.3 units/project for the three Kansas City developments studied, and an average of 17.8 units/project for the set of five candidate Kansas City developments). In contrast, the Boston developments tended to be considerably larger than the mean for the sample (with an average of 110.7 units/project for the three Boston developments studied and 88.2 units/project for the set of five candidate Boston projects). In the case study selection, emphasis was placed on identifying the larger local projects (projects of at least 30 units and ideally 50 units or more) in order that the analysis reflect projects of a size that potentially could have a significant impact on the national shortage of affordable housing. Therefore, the recommended projects for a MSA may not be truly

representative of the local population of development projects. However, since this selection approach was utilized for all the MSAs, the comparative average sizes of the recommended projects may still be indicative of distinct patterns among those MSAs.

3.2.2 Housing Stock

Does nonprofit development reflect local or regional patterns? The 15 case studies suggest a variety of factors that could contribute to locally-determined development patterns. First, there is the nature of the existing housing stock in the local market. Chicago, for example, has little undeveloped land and a large inventory of deteriorated stock that can be acquired at a modest cost. Such conditions would be an inducement for nonprofit developers to pursue rehabilitation rather than new construction. On the other hand, in less developed metropolitan areas (as well as in cities where the demolition of existing structures has created sites for re-development), one might expect more emphasis on new construction as a development approach. The San Francisco/Oakland MSA is an obvious exception to this conjecture.

3.2.3 Uniformity of Funding Sources

Another factor that may foster distinct scenarios for affordable housing development in each MSA is a certain uniformity of funding sources. Among the 15 projects, this was true for private financing as well as public funds, with the names of the same banks appearing repeatedly as the source for mortgage funds or bridge loans, or specific corporations appearing as the investors/limited partners for LIHTC purposes. Particularly for the private financial institutions, it seems reasonable that once these entities became familiar and comfortable with a particular model for structuring affordable housing deals, they would attempt to get subsequent projects to fit this "mold" as closely as possible. Therefore, the dominant development scenario(s) for an MSA would likely be a reflection of the model(s) to which the leading lending sources were accustomed.

3.2.4 Role of Experienced Developers as Mentors

Similarly, the role played by the more experienced local developers and syndicators as mentors/facilitators in each of the regions may be a major factor in standardizing development

approaches within the MSAs. Since the nonprofits within an MSA often would be looking to the same small group of experts for advice and assistance, these experts had tremendous influence over nonprofit development in terms of defining the universe of approaches available for structuring such projects. In Boston, The Community Builders and the Boston Housing Partnership seemed to play this role. In Kansas City and Chicago, this function was served by the local office/affiliate of LISC, an organization which consciously attempts to package financing components into "local production systems" to create predictable methods of nonprofit development.⁵ In the San Francisco/Oakland MSA, it was entities like the BRIDGE Corporation, Eden Housing, and the local nonprofit syndicator who served as key sources of technical assistance on affordable housing development. In the Washington, D.C. MSA, LISC (and Enterprise) were playing a technical assistance role, but in addition the nonprofits themselves were creating coalitions and joint projects to take advantage of the comparative expertise among local organizations.

A result of the availability of this expertise was that even the most novice nonprofit developer could pursue a highly sophisticated, state-of-the-art financing approach to its project. Given the technical complexity of the financial approaches used by many of the case study projects, and the difficulties in obtaining financing, the ongoing assistance of the more experienced mentor/facilitator was critical for moving many of the projects forward. For example, the involvement of The Community Builders as development consultant for the Langham Court Cooperative allowed its nonprofit sponsor, Four Corners Development Corporation, to undertake as its "first" effort this 84-unit project with \$4.275 million in Tax Credit syndication proceeds from private investors, along with city and state subsidies, plus involving more than \$17 million in out-of-pocket costs. In contrast, LUCHA, Inc., which chose to pursue its 37-unit rehabilitation effort without the active involvement of a more experienced developer, reported considerable difficulty in identifying the required financing for its project, which was less than a fifth of the funding entailed in the Boston project.

Often the less skilled nonprofit could utilize its working relationship with the mentor to build its own expertise and capacity to undertake projects independently in the future. This relationship seemed to work well in the case of affiliation of the East Bay Asian Local Development Corporation with the BRIDGE Corporation for the Frank Mar project.

5. Memorandum from Christopher Walker and Bruce Ferguson, The Urban Institute, October 18, 1992, p.2.

In other instances, however, the nonprofit ceded much of the development decision-making to the expert. This seems to arise where a less-seasoned nonprofit either is overwhelmed by the complexities of the financial approaches taken or is presented with a completely pre-structured development package. This appeared to be the case for the Granite Properties projects packaged by Boston Housing Partnership. With this approach, the quality of learning experience for the less skilled nonprofit would not be so high, and therefore the organization would remain more dependent on the expert for future efforts.

3.2.5 Role of State/Local Laws and Processes

Not surprisingly, the case studies suggest that state and municipal laws governing taxes and real estate may create distinct local housing production patterns. For instance, the emphasis on lease-hold cooperatives in the Minneapolis/St. Paul area indicated by the site reconnaissance clearly demonstrated the impact of the favorable treatment of this ownership form in Minnesota's tax laws. Similarly, the municipal ordinance in Washington, D.C. providing tenants the right of first purchase when rental stock is offered for sale promotes the formation of cooperatives as a mechanism to preserve affordable housing.

Local zoning ordinances obviously play a strong role in the types of housing undertaken. For example, the sponsor of the Baywood Apartments project in Fremont, California noted that the design of the development was the result of "backing into" the permitted densities. Both the Baywood and the Maria Alicia projects benefited from 25 percent density bonuses available to affordable housing under state law.

There seemed to be considerable variation among these MSAs in the support for the nonprofits' affordable housing efforts, as manifested by the states' and cities' efforts to expedite zoning and other approval processes. In Kansas City, two of the three nonprofits examined in the case studies cited problems with the permitting process, finding it very time-consuming to obtain necessary variances and easements. In the case of Quality Heights Homes, the city rescinded previous approvals for the project's drainage lines, requiring additional engineering and construction. For Kansas City's Signal Hill project, it took an experienced nonprofit developer six months to obtain the necessary variances and easements for a relatively modest 15-unit development.

In Washington, D.C., the Renaissance Apartments development experienced an extremely lengthy and difficult process requiring over a year's effort to resolve lien issues and complete acquisition of a city-owned property critical for the project. The negotiations with the city became so frustrating that at one point the nonprofit sponsor threatened to terminate the project, despite the \$130,000 in cash the organization had already invested in the project. Similarly, the Dorsey R. Moore Cooperative experienced major lien and zoning approval issues. A representative for the third nonprofit project studied in Washington, D.C. indicated that the laborious city approval processes were one of the reasons why many nonprofits were reluctant to seek municipal funds for projects.

On the positive side, in Boston it was not uncommon to receive waivers or at least expedited determinations relative to special state and local development requirements. A program incorporated in Boston's zoning laws also provides a pool of money from market-rate for-profit developments (so-called "linkage" payments in cash or commitments to produce affordable housing) to underwrite the costs of affordable housing projects, encouraging additional nonprofit production as a result.

3.2.6 Role of Available Subsidies

The availability of local or state public resources to supplement Federal assistance also seemed to be a key feature shaping the nature of nonprofit housing development in an MSA. In Boston, for example, where a wide variety of capital and operating subsidies for affordable housing was available from the state and city during the late 1980s, a profusion of nonprofit housing efforts occurred and a variety of development approaches were fostered.

In addition to a broader variety of development scenarios, the research in the five MSAs suggests that a multitude of accessible forms of public subsidies can result in more complex and multi-layered financing packages, as the nonprofits seek to maximize the financing they can leverage with the equity they are able to bring to a project. Although a multi-layered financing approach can result in larger projects, deeper subsidies for tenants, or the provision of more amenities, the complexities of such financing also can lead to less positive outcomes, such as higher transaction costs (to be discussed later) and greater delays in the development process.

Regardless of the number of layers of assistance, however, it was commonplace for projects to experience considerable delays as a result of their dependence on various forms of

public subsidies. In the case of the Florian Gardens Cooperative in Washington, D.C. delays in securing approval from the city for \$36,500 in Rental Rehabilitation Program funding held up almost one million dollars in private financing for the better part of a year. In Boston, what a representative of the nonprofit characterized as an eleventh hour decision by the regional HUD office to split the Washington/Columbia-Granite Properties project into two phases, has meant that an effort originally to be completed by 1990 is still only half done. All three projects in the Kansas City and San Francisco/Oakland MSAs that were awarded HoDAG development funding experienced delays in receiving this assistance, which required the nonprofits to incur the additional expense of bridge financing. In the Frank Mar project in Oakland, the HoDAG funding wasn't received until nearly 1½ years after construction had been completed.

CHAPTER 4

SOURCES OF FUNDS

In this chapter we turn to the financial characteristics of the 15 nonprofit affordable housing development projects. After a brief overview of the projects' full development costs to establish the context, we examine the sources of funds used to cover the costs observed in the 15 cases. This analysis assesses both **cash and non-cash resources** available to the projects. At the end of the chapter, the **present value** of the various contributions and subsidies received by the projects is discussed.

4.1 Overall Development Costs

The full development cost for a project consists of the out-of-pocket costs covered by all financing sources (including cash donations and grants) *plus* a valuation for all non-cash contributions, in-kind services, waived or discounted fees, and interest subsidies. For projects utilizing Tax Credits, the full development cost includes any expenses paid through the full allotment of syndication proceeds realized by the project, including the costs of securing and administering the syndication. The full development cost for each of the fifteen projects in the sample, calculated through application of the study's cost and funding framework, is presented in Exhibit 4.1.

The costs shown in Exhibit 4.1 are presented in several "per unit" forms. Column B provides the developers' own estimates of project costs, usually based on cost certifications, financial statements or final *pro formas*. While these figures are unadjusted, so that comparisons across projects are at best rough, they are the figures most widely used by practitioners when referring to "costs," not the more comprehensive build-ups we have used in this study.

The figures in Column C of the exhibit are the result of dividing the actual value of the full development cost by the actual number of residential units in the project. The figures in Column D represent the full development cost for the project *normalized for location and year the project was developed*, where costs are adjusted to 1991 District of Columbia prices using R.S. Means, then divided by the actual number of units. In Column E, we have taken the normalized figure of development costs for each project and then divided it by the number of "standard two-bedroom equivalent units" for the particular development. (This presents costs

Exhibit 4.1 Per Unit Cost of Projects

A. Project/ Nonprofit Sponsor (* Indicates New Construction)	B. Developer's Estimate (Unadjusted)	C. Full Development Cost/Unit (Unadjusted)	R A N K	D. Normalized Development Cost/Unit (Actual)	R A N K	E. Normalized Development Cost/Std. 2BR Unit	R A N K
BOSTON MSA							
1. Langham Court Coop. - Four Corners Dev. Corp.*	\$163,269	\$264,664	(15)	\$214,469 [\$205,801 w/o land]	(15) (15)	\$232,855 [\$223,445 w/o land]	(15) (15)
2. Washington/Columbia (I) - Codman Square Hous. Dev. Corp.	\$66,649	\$107,845	(10)	\$89,480 [\$86,460 w/o land]	(10) (10)	\$110,678 [\$106,943 w/o land]	(12) (12)
3. La Concha Apartments - Nuestra Comunidad Dev. Corp.	\$68,086	\$128,240	(12)	\$106,402 [\$103,087 w/o land]	(12) (12)	\$107,462 [\$104,115 w/o land]	(11) (11)
WASHINGTON, D.C. MSA							
4. Dorsey Moore Coop. - Manna, Inc.* (and rehab)	\$66,073	\$73,081	(7)	\$74,828 [\$72,732 w/o land]	(7) (7)	\$56,823 [\$55,232 w/o land]	(6) (6)
5. Florian Gardens Coop. - Project WISH	\$40,235	\$43,402	(1)	\$44,439 [\$38,891 w/o land]	(1) (1)	\$50,866 [\$44,516 w/o land]	(4) (2)
6. Renaissance Apartments - MUSCLE, Inc.	\$39,156	\$54,031	(3)	\$56,704 [\$54,533 w/o land]	(3) (3)	\$58,010 [\$55,789 w/o land]	(7) (7)
CHICAGO MSA							
7. Washington Blvd. Apts. - Bethel New Life, Inc.	\$65,820	\$70,315	(5)	\$62,948 [\$62,359 w/o land]	(5) (5)	\$49,423 [\$48,960 w/o land]	(3) (4)
8. Plaza on the Park II - Urban Dev. Corp.	\$59,193	\$63,376	(4)	\$58,092 [\$56,500 w/o land]	(4) (4)	\$60,907 [\$59,237 w/o land]	(8) (8)
9. Borinquen Apartments - LUCHA, Inc.	\$71,022	\$76,483	(8)	\$70,107 [\$69,114 w/o land]	(6) (6)	\$55,636 [\$54,849 w/o land]	(5) (5)
KANSAS CITY MSA							
10. Blue Hills Take Part I - Blue Hills Homes Corp.	\$45,331	\$47,682	(2)	\$46,573 [\$45,326 w/o land]	(2) (2)	\$42,115 [\$40,988 w/o land]	(1) (1)
11. Signal Hills Townhomes - Westside Housing Organization, Inc.*	\$77,532	\$90,132	(9)	\$88,035 [\$86,733 w/o land]	(9) (11)	\$47,437 [\$46,735 w/o land]	(2) (3)
12. Quality Heights Homes - Kansas City Neighborhood Alliance*	\$57,403	\$72,923	(6)	\$75,583 [\$73,786 w/o land]	(8) (8)	\$63,286 [\$61,781 w/o land]	(9) (9)
SAN FRANCISCO/OAKLAND MSA							
13. Baywood Apartments - Eden Housing, Inc.*	\$86,962	\$111,435	(11)	\$90,852 [\$82,898 w/o land]	(11) (9)	\$82,969 [\$75,705 w/o land]	(10) (10)
14. Maria Alicia Apartments - Mission Housing Dev. Corp.*	\$143,900	\$222,767	(14)	\$181,620 [\$164,540 w/o land]	(14) (14)	\$170,604 {\$154,560 w/o land}	(14) (14)
15. Frank Mar Community Hsg. - East Bay Asian Local Dev. Corp.*	\$132,586	\$141,428	(13)	\$112,496 [\$109,695 w/o land]	(13) (13)	\$152,953 [\$149,145 w/o land]	(13) (13)
AVERAGE	\$78,881	\$104,520		\$91,509 [\$87,497 w/o land]		\$89,468 [\$85,467 w/o land]	

for a unit of 844 square feet, taken as the nominal size of a two-bedroom unit.)¹ The values for Columns D and E are shown both with and without land costs being included in the calculations.

Exhibit 4.1 also displays for Columns C through E, in brackets, the numerical ranking of each project's per unit costs, ranked in order from least to most expensive. The full development cost per unit (Column C) ranges from \$43,402 for Florian Gardens in Washington, D.C., to \$264,664 for Langham Court Cooperative in Boston.² Although the data from the 15 study projects may suggest some valid MSA patterns, the reader is cautioned about such interpretation. For example, although the Washington, D.C. projects in this study are among the lower cost projects and none of them use the Low Income Housing Tax Credit, one of the Washington nonprofit sponsors has recently completed the restoration of an elegant historic downtown hotel using the Tax Credit at a per unit cost, by the developer's accounting, of \$140,000 per unit, counting the value of the site leased to the sponsor by the District. (These costs do not necessarily include all the elements counted in the analysis for this study and cannot be directly compared with the full development costs of the 15 case study projects.)

Because the analysis methodology had anticipated that costs among projects would vary depending on the year constructed, local labor and materials rates, the size of units constructed, and land costs, we were interested in examining the cost patterns "normalized" for these factors, using the approach described in Chapter 2. Columns D and E of Exhibit 4.1 show the results of this normalization. The net effect of the normalization is to reduce the range of variation and to change the relative ranking of twelve of the fifteen individual projects. Excluding land (another market specific factor) from the calculations also reduces the amount of variation, but does not significantly affect cost relationships among projects. New construction projects appear

1. *Current Status of HUD-Insured Multifamily Rental Housing*, Abt Associates Inc., September 1992.

2. In carrying out the objectives of this study, calculations for "full development cost" include values for all non-cash contributions. Therefore, the figures presented for the complete development and per unit costs may differ considerably from the non-profit sponsors' own estimates for these projects. (Indeed, a "full development" accounting of a for-profit project also would include more elements than typically cited.) For example, a representative of the development consultant for the Langham Court project in Boston calculated the project's out-of-pocket costs as \$13,714,571, or \$163,269 per unit. This out-of-pocket figure does not count the costs for an underground parking garage necessitated by city requirements, or the value of non-cash resources related to the donated land, interest subsidies, and deferred/contributed developer's overhead and fees, valued at more than \$5 million, nor does it include an additional \$2.2 million in syndication proceeds not accounted for in the project's cost certification.

to be the most expensive, particularly those located in urban sites, those that provide below-grade parking, and those that are low- or high-rise apartment construction as opposed to town house or single family units.

4.2 Sources of Funds

For the purposes of the cost and funding format, the financing of the projects was divided into two main categories: *cash resources* (including cash equity and debt financing) and *non-cash contributions and donations*. Exhibit 4.2 presents an overview of sources of funds for each of the fifteen nonprofit projects. In addition to displaying cash resources and non-cash contributions and donations, Exhibit 4.2 also shows the portion of full unadjusted development costs provided by public sources, including concessions in acquisition costs, property taxes and below market loan terms. The data shown in this exhibit represent per unit amounts for un-normalized full development costs.³ The percentages show the portion of full development cost covered by each category of financing. For the minimum and maximum rows in Exhibit 4.2, the percent values shown are the highest and lowest percentages respectively, found among the 15 projects. Note that a project's relative position in the dollar amount for a category may differ from its relative position for the cost percentage of that category.

Cash resources were defined as **cash equity funds** from all sources and **debt financing**. The 15 nonprofit projects averaged \$89,237 per unit in cash resources, which represented, on average, 86.9 percent of the per unit full development cost. In dollars, cash resources ranged among these projects from a minimum of \$40,581 per unit for Renaissance Apartments in Washington, D.C. to \$204,869 per unit for Langham Court in Boston. As a percentage of full development cost, cash resources ranged from 67.2 percent for La Concha Apartments to 95.9 percent for Baywood Apartments in Fremont, California. Public sources -- which included all public grants, loans, subsidies, and donations -- accounted for 49.4 percent of full development costs, on average, with a high of 76 percent (Washington/Columbia in Boston) and a low of 22 percent (Baywood in Oakland).

3. Normalization for location, time, building type, and unit size was performed for the figures on full development cost and full development cost per unit, but not for individual components of these numbers. See Appendix B for a discussion on the limits of the normalization methodology.

Exhibit 4.2 Sources of Funds for Nonprofit Projects (per unit amounts, not normalized)

Name of Project	Full Development Cost Per Unit	Cash Resources						Non-Cash Contributions and Donations	% Full Dev. Cost	Public Sources as Percent of Full Development Cost
		Cash Equity	% Full Dev. Cost	Debt Financing	% Full Dev. Cost	Total Cash Resources	% Full Dev. Cost			
BOSTON MSA										
1. Langham Court Coop.	\$264,664	\$52,459	20	\$152,410	58	\$204,869	77	\$59,795	23	65
2. Washington/ Columbia Apts.	\$107,845	\$20,100	19	\$58,205	54	\$78,305	73	\$29,539	27	76
3. La Concha Apartments	\$128,240	\$22,877	18	\$63,357	49	\$86,234	67	\$42,006	33	72
WASHINGTON, D.C. MSA										
4. Dorsey Moore Coop.	\$73,081	\$5,219	7	\$60,854	83	\$66,073	90	\$7,008	10	46
5. Florian Gardens Coop.	\$43,402	\$2,946	7	\$38,219	88	\$41,165	95	\$2,236	5	40
6. Renaissance Apartments	\$54,031	\$539	1	\$40,042	74	\$40,581	75	\$13,451	25	41
CHICAGO MSA										
7. Washington Blvd. Apts.	\$70,315	\$18,540	26	\$47,280	67	\$65,820	93	\$4,494	7	46
8. Plaza on the Park II	\$63,376	\$12,930	20	\$46,263	73	\$59,193	93	\$4,182	7	28
9. Borinquen	\$76,483	\$16,360	21	\$54,662	72	\$71,022	93	\$5,460	7	76
KANSAS CITY MSA										
10. Blue Hills Take Part	\$47,682	\$15,442	33	\$30,211	63	\$45,653	96	\$2,029	4	40
11. Signal Hill Townhomes	\$90,132	\$28,149	31	\$53,333	59	\$81,482	90	\$8,650	10	44
12. Quality Heights Homes	\$72,923	\$19,950	27	\$38,750	53	\$58,700	80	\$14,223	20	61
SAN FRANCISCO/OAKLAND MSA										
13. Baywood Apartments	\$111,435	\$51,737	46	\$55,117	50	\$106,854	96	\$4,581	4	22
14. Maria Alicia Apts.	\$222,767	\$122,463	55	\$75,609	34	\$198,072	89	\$24,696	11	53
15. Frank Mar Housing	\$141,428	\$67,869	48	\$66,666	47	\$134,535	95	\$6,893	5	32
MINIMUM	\$43,402	\$539	1	\$30,212	34	\$40,581	67	\$2,029	4	22
MAXIMUM	\$264,664	\$122,463	55	\$152,410	88	\$204,869	96	\$59,795	33	76
AVERAGE	\$104,520	\$30,505	25	\$58,732	62	\$89,237	87	\$15,283	13	49

4.2.1 Cash Equity

The category of cash equity includes the following elements:

- sponsor's cash contributions from the organization's operating budget;
- sponsor's cash contributions from its capital budget;
- syndication proceeds and other investment funds;
- deposits on unit purchases;
- cooperative fees and assessments;
- grants from private sources;
- grants from public sources; and,
- interim project income.

Cash equity in the fifteen projects ranged from \$539 per unit (or 1 percent of full development costs) for the Renaissance Apartments project to \$122,463 per unit (55 percent of full development costs) for Maria Alicia Apartments. The average cash equity was \$30,505 per unit, or mean percentage of 25.3 percent of full development costs.

The Role of Tax Credits

The most common form of equity in the sample was syndication proceeds associated with Low Income Housing Tax Credits. Twelve of the fifteen projects utilized Tax Credits, with the three Washington, D.C. cases the only exceptions. (One of the Washington sponsors recently completed a Tax Credit project that was not included in this study.)

The prominence of Tax Credits/syndication proceeds in the other MSAs reflects the widespread use of this financing mechanism nationally. (For instance, it has been estimated that in 1990 more than 90 percent of affordable housing projects, regardless of type of sponsor, were funded by Tax Credits.⁴) Most nonprofits do not have sufficient cash resources on hand and lack alternate ways to raise the cash necessary to leverage debt funding for their projects. Moreover, syndication proceeds can be applied to cover the costs of many development-related expenses (such as allowances for pre-development expenses, profits for contractors, and adequate developer's fees) that may not be considered "mortgageable" by other funding sources.

4. Herbert Stevens and Thomas Tracy, A Developer's Guide to the Low Income Housing Tax Credit, National Council for State Housing Agencies (Washington, D.C., 1992) p. III.

Accordingly, the availability of Tax Credits has been critical as a catalyst for affordable housing development.

One approach to examining the importance of Tax Credits in raising equity is to calculate the net amount contributed to the project after costs of syndication. As indicated in Exhibit 4.3, the 12 projects that used the Low Income Housing Tax Credit raised, on average, \$2,214,202 per project (\$32,547 per unit) in gross investor payments (syndication proceeds), including amounts provided by the general partner *and* by the limited partner(s).⁵ Of this amount, an average of \$362,184 per project (\$5,680 per unit) was devoted to various syndication costs⁶. This represents a syndication cost, relative to gross investor payments, averaging 21 percent, across the 12 projects.⁷ Once these syndication costs are subtracted from gross investor payments, the Tax Credit raised an average of \$1,852,018 per project (\$26,867 per unit). This net syndication amount averages 25.6 percent of the total actual out-of-pocket costs across the 12 projects. The project with the highest percentage of syndication costs (34 percent),

5. We have used gross investor payments because that is the common accounting approach for Tax Credit projects, and the gross payments are used in figuring the basis for the tax credits. In reality, Tax Credit projects often realize the current value of investor payments that are to be received in the future through some sort of bridge financing. That is, if the funds are needed currently for the project, they are provided through a party that usually expects some interest on the delayed repayment made from investor payment installments. (Often, however, the portion of gross investor payments that is applied to development fees is paid on a deferred basis, more or less concurrent with investor installments.) This interest could be regarded simply as the price for accelerating the capture of capital and not counted as a cost of development. Then full development costs would exclude the portion of syndication proceeds (gross investor payment) used for interest payments on bridge financing used to capture capital immediately. This would reduce the portion of gross investor payments counted as part of full development costs typically by 20 to 30 percent.

6. We have attempted to count as syndication proceeds the total amounts to be paid in by investors, even though paid over a period of years. Syndication costs are all the discernable amounts that appear to have been spent on any combination of syndication commissions and fees, partnership acquisitions for two-tier partnerships, costs of partnership administration, net worth accounts, and accounting expenses. For this analysis we have not regarded as a syndication cost the interest costs of "bridging" these investor payments to capture some or all of the capital immediately.

7. The project average syndication costs of 21 percent of gross investor payments compares favorably with a conventional Tax Credit syndication by a Boston syndicator in 1989, in which total syndication costs were 30 percent of gross investor payments, with 12 percent of gross investor payments devoted to syndication commissions and fees, and an additional 18 percent of gross investor payments devoted to acquisition of second-tier partnerships and overall partnership administration, including net worth accounts, accounting expenses, and other partnership maintenance costs. The lower average for the study projects may reflect incomplete information or may indicate that the various costs of syndication were lower for many of the study projects because the equity investments were made by a single corporate or bank investor or otherwise offered to a more limited number of investors.

Exhibit 4.3 Tax Credit Syndication Proceeds and Costs

Project	Syndication Proceeds	Proceeds Per Unit	Syndication Costs	Syndication Costs Per Unit	Syndication Costs as Percentage of Proceeds	Net Syndication Proceeds	Total Cash Costs	Net Proceeds as Percentage of Total Cash Costs
BOSTON MSA								
1. Langham Court Coop.	\$4,275,000	\$50,893	\$887,000	\$10,560	21%	\$3,388,000	\$17,209,025	20%
2. Washington - Columbia Apts. (I)	\$2,724,611	\$18,044	\$926,065	\$6,132	34%	\$1,798,546	\$11,824,170	15%
3. La Concha Apartments	\$2,030,054	\$20,928	\$649,360	\$6,694	32%	\$1,380,694	\$8,364,658	17%
CHICAGO MSA								
4. Washington Blvd. Apts.	\$945,555	\$18,540	\$200,360	\$3,929	21%	\$745,195	\$3,356,835	22%
5. Plaza on the Park II	\$737,020	\$12,930	\$149,060	\$2,615	20%	\$587,960	\$3,374,020	17%
6. Borinquen Apartments	\$750,000	\$20,270	\$120,767	\$3,264	16%	\$629,233	\$2,627,831	24%
KANSAS CITY MSA								
7. Blue Hills Take Part	\$277,851	\$15,436	\$88,428	\$4,913	32%	\$189,423	\$821,759	23%
8. Signal Hill Townhomes	\$422,129	\$28,142	\$122,507	\$8,167	29%	\$299,622	\$1,222,229	25%
9. Quality Heights Homes	\$747,901	\$18,699	\$158,649	\$3,966	21%	\$589,252	\$2,348,001	25%
SAN FRANCISCO/OAKLAND MSA								
10. Baywood Apartments	\$4,242,424	\$51,737	\$797,627	\$9,727	19%	\$3,444,797	\$8,762,032	39%
11. Maria Alicia Apts.	\$1,341,414	\$67,071	\$147,218	\$7,361	11%	\$1,194,196	\$3,961,435	30%
12. Frank Mar Community Housing	\$8,076,466	\$67,869	\$99,171	\$833	1%	\$7,977,295	\$16,009,727	50%
Minimum	\$277,851	\$12,930	\$88,428	\$833	1%	\$189,423	\$821,759	15%
Maximum	\$8,076,466	\$67,869	\$926,065	\$10,560	34%	\$7,977,295	\$17,209,025	50%
Average	\$2,214,202	\$32,547	\$362,184	\$5,680	21%	\$1,852,018	\$6,656,810	26%

Note: Three Washington, D.C. projects not syndicated (did not use the Low Income Housing Tax Credit), thus are excluded from this table.

Washington/Columbia Apartments (Granite Properties - Phase I) in Boston, had the smallest portion of actual cash costs borne by net syndication proceeds (15 percent). The property with the lowest percentage of syndication costs (1 percent), the Frank Mar Community Housing property in Oakland, had the highest portion of actual cash costs borne by net syndication proceeds (50 percent).⁸

The Tax Credit mechanism provided an essential means for raising equity funds for many projects. The funds raised, net of syndication costs, served many purposes for different projects, including provision of:

- the equity required to satisfy underwriting requirements of permanent lenders;
- a source for payment of expert development consultants, who provided expertise and sophistication of approach;
- the margin needed to meet cost overruns, especially in construction (for example, in the Kansas City and San Francisco projects);
- some coverage of overhead/staff costs and development fee for the sponsor (although the discussion to follow in Chapter 5 will indicate how limited this application was);
- greater operating reserves than would otherwise have been possible (Boston and San Francisco projects); and,
- equity coverage of a larger fraction of total costs, so that a smaller proportion had to be debt-financed, thereby improving the affordability of the monthly payments required of tenants (San Francisco projects).

If the various costs and fees paid with these net proceeds of syndication were necessary to produce the project, then the Tax Credit is indeed a critical component of the financing of these projects. However, these cases raise the question whether an alternative means of providing this equity would involve equally high transaction costs. We note that the three non-tax-credit projects in the study -- all located in Washington, D.C. -- had among the lowest in normalized full development costs per unit. This might suggest that the use of the Tax Credit

8. All three of the San Francisco projects used the same non-profit organization as their syndicator. The syndication costs are especially low for Frank Mar and Maria Alicia because their syndication payments were a lump sum, not requiring a bridge loan with its attendant interests costs. They were also made by a corporate investor able not only to fully use the tax credits but also to use the passive losses from real estate depreciation to offset corporate income; hence these corporations are willing to pay a premium for the investment. The Frank Mar project also had the lowest investment rate of return in the tax credits, hence proportionately higher syndication proceeds.

itself creates such a large source of available funds that it permits higher total project costs, although the nature of this study (and the number of projects visited) is too limited for this to be more than a conjecture.

In addition, because the syndication proceeds are not available up-front,⁹ the sponsor/limited partnership must usually secure bridge financing to cover expenses until the receipt of the limited partner contributions. The cost of this bridge financing (in terms of interest, fees, transaction costs, and added collateral) along with the expenses of the syndication itself (establishing the partnership, maintaining the net worth account, general partner overhead, servicing investors, and so on) also increase the full development costs.

Moreover, achievement of the full allocation of Tax Credits/syndication proceeds is dependent on maintaining the eligibility of the project over time, and therefore it is not completely certain. In one of the Chicago Tax Credit projects in the study, for example, the management agent and nonprofit inadvertently leased units to over-income tenants, requiring a revision in the syndication installments and forcing the partnership to cover scheduled loan repayments out of a contingency fund. In part as a result of such uncertainty, partnerships formed for Tax Credit projects may decide not to allocate all of the anticipated syndication proceeds exclusively to development-period expenses. In such cases, it can be difficult to track where the proceeds are being applied and how much they represent an actual capital contribution to the project. The complexities of Tax Credit financing also can add to the difficulties faced by less experienced nonprofit sponsors in undertaking housing development efforts, or the extent to which they must rely on consultants or more skilled partners.

An overall assessment of the cost effectiveness of Tax Credits should also examine such factors as the amount of credits utilized by projects, the internal rate of return to investors, the cost to the public from the loss of tax revenue, and how the costs of Tax Credits compare to other housing assistance approaches. A full analysis of these and other such issues was beyond the scope of this study, but an evaluation of the Low Income Housing Tax Credit performed for HUD by ICF provides some insights.¹⁰ The ICF report estimated that the internal rates of

9. In fact, the various State Credit Agencies, which allocate the credits, cannot process an application for Tax Credits until all of the other financing to be used in the development is shown on the application.

10. See "Evaluation of the Low Income Housing Tax Credit, Final Report (February 28, 1991)", ICF Incorporated (Fairfax, VA), pp. 2-3.

return (IRR) averaged between 17 and 19 percent for the typical Tax Credit unit (assuming no residual value at the end of the 15-year holding period). The ICF study also computed the discounted present value of the equivalent 15-year subsidy of Section 8 Existing Housing rental assistance for the same income levels as households in the Tax Credit projects and compared them with the discounted present value of all the subsidies involved in the Tax Credit projects in their 104-project sample (covering six program types--Tax Credit only, Tax Credit plus pre-existing project subsidies, Tax Credit plus section 8 Moderate Rehabilitation, Tax Credit plus Section 515 rural rental housing, Tax Credit plus tenant-based assistance, and Tax Credit plus other subsidy forms, such as below market state bonds). Overall, the ratio of the discounted present value of subsidies for the Tax Credit projects was 2.4 times the average discounted present value of the equivalent Section 8 Existing Housing subsidies for the same households.

The cost to the public of this form of raising equity clearly is large, by the very design of the program. In present value terms, the ten years of Tax Credits is worth more to the government in lost revenues than to the investors in future tax offsets. For example, if a project generates \$2,000 per year in Tax Credits, these are worth \$16,462 to the government (present value of such an annuity discounted at 4 percent per year, the "applicable Federal rate" used to set credit rates as of October 1992; see Housing and Development Reporter, *Current Developments*, October 26, 1992, p. 491).¹¹ These same credits have a present value to investors (gross investor proceeds) of \$9,949 when discounted at an illustrative rate of return of 16 percent. All the items we have tabulated as syndication costs (roughly 20 percent of the gross investor proceeds) reduce still further the amount actually delivered to the project. In this example, net syndication proceeds would amount to about half of the present value to the government of the Tax Credits:

$$(\$9,949 \text{ for present value to investors} / \$16,462 \text{ for present value to government}) \times (1 - 0.2 \text{ for syndication costs}) = 0.48.$$

This example is consistent with the revised subsidy layering guidelines released recently by HUD for projects with both HUD subsidies and Tax Credits, in which HUD estimates net syndication

11. The "applicable Federal rate" is a statutory blend of short- and medium-term Treasury note rates used to arrive at the relationship between the credit amount and a nominal current share of the credits of 70 percent of the qualified basis for new construction. It is arguable that a higher government discount rate should be used, which would lower the present value to the government of the credits.

proceeds at 45 to 50 percent of the present value of the 10-year Tax Credit allocation. (See Housing and Development Reporter, *Current Developments*, October 12, 1992, p. 426.)

Other Equity Sources

The Washington, D.C. MSA cases offered an alternative example of how nonprofits can satisfy the equity requirements for affordable housing projects, without use of Tax Credits. Both MUSCLE, Inc. and Manna, Inc. have established in-house development funds, which were capitalized over a number of years through monies raised from individuals, corporations, and foundations. In MUSCLE's case, the monies came from donations, while some of Manna's funding was in the form of loans paying investors an average interest of three percent. With these development funds, the organizations are in a better position to act when opportunities present themselves, such as when sites become available, or for carrying out feasibility analyses. They also are better able to absorb the costs associated with delays.

While the approach taken by these two Washington, D.C. nonprofits has considerable merit, it should also be noted that the projects completed by these organizations were among the smaller developments in the sample, and their in-house development funds would not have been sufficient to cover the equity requirements of some of the larger projects surveyed. Moreover, the lead time and effort required to establish such development funds should not be underestimated.

There is also a question as to the number of such development funds that can be realistically supported by foundations, charitable organizations, and corporations in a particular MSA. In the Boston MSA, for instance, there are several dozen nonprofit groups undertaking affordable housing activities. There is already considerable competition among the Boston nonprofits for supplementary support from a limited number of local private charitable and corporate sources. In what was seen as an unprecedented initiative, a group of funders was brought together by the Boston LISC chapter to provide core operating funding to 10 selected Boston nonprofit housing developers, but only on an experimental and time-limited basis.

The difficulties in obtaining grants from private charitable sources or corporations for project-specific equity purposes is also reflected in the fact that only 5 of the 15 nonprofits in the study reported such donations, primarily for relatively limited sums (\$20,000 or less). The development efforts that received these private grants were La Concha Apartments in Boston,

all three projects in the Washington, D.C. MSA, and Quality Heights Homes in Kansas City (which received a small grant from LISC). In addition, the Codman Square Housing Development Corporation was one of the 10 local nonprofits to receive a multi-year award through the Neighborhood Development Support Collaborative organized by Boston LISC. Although designated as core operating funds, these monies are used to underwrite the nonprofit's staff costs for its various development projects.

Another way in which charitable organizations, corporations, and other private entities assisted the projects was in the area of bridge financing. Four of the development efforts benefitted from pre-development, acquisition, or bridge loans from LISC, with one of these projects (Washington Boulevard) also receiving an Enterprise Foundation bridge loan. Three developments involving Tax Credits (Washington-Columbia and La Concha in Boston, and Baywood in Fremont) obtained bridge loans from the limited partner in the project. The Langham Court project in Boston received bridge loans from its development consultant and a local charitable organization. The Florian Gardens Cooperative effort in Washington, D.C. secured interim financing from the National Coop Bank.

Even public grants apparently were hard to obtain, with only five projects reporting such assistance (two grants from cities, one from a state, two from a state HFA, and a federal grant as part of a HoDAG package). The projects that received these public grants were Washington-Columbia Apartments and La Concha Apartments in Boston, the Dorsey Moore Cooperative in Washington, D.C., Quality Heights Homes in Kansas City, and Maria Alicia Apartments in San Francisco. For the most part, public funding came in the form of loans, although in many cases forgiveness of the loan over time is possible¹². A representative for Project WISH in Washington, D.C., for example, indicated that both the Rental Rehabilitation Program loan and the Home Purchase Assistance Program loan received for the Florian Gardens Cooperative might be forgiven at the end of the loan term. Similarly, the state Housing Innovations Fund (HIF) loan received by Boston's Langham Court Cooperative might convert to a grant over time; the HIF program employs a loan structure in its assistance largely as a mechanism to enforce the accountability of project sponsors to maintain the affordability of funded housing.

12. As will be discussed in Section 4.2.3 below, the primary public contributions to the projects studied were concessions in property acquisition costs, property taxes, and below market loan terms.

In the three cooperative projects in the sample, equity was also available in the form of deposits or payments for member shares. However, these funds tended to come in over time near the completion of the development period, and their amounts were quite modest. They were not sufficient to serve as the sole source of equity in any of the projects.

4.2.2 Debt Financing

As seen in Exhibit 4.2 presented above, debt financing in the case studies ranged from \$30,212 per unit for Blue Hills Take Part I in Kansas City, to \$152,410 per unit for the Langham Court Cooperative in Boston, with a sample average of \$58,732 per unit.¹³ As a percentage of full development cost, debt financing ranged from 34 percent for Maria Alicia Apartments in San Francisco to 88 percent for the Florian Gardens Cooperative in Washington, D.C., with a mean percentage of 62 percent.

Eleven of the projects had debt financing in the form of a loan from a bank or private financial institution, either as construction/interim financing or as a permanent mortgage. Two other projects secured letters of credit through a bank in connection with their developments. In all of these thirteen cases involving private debt financing, however, the resources from the private financial institution were supplemented by loans from public sources, and, in at least three of the cases, loans from the bank/financial institution were being made under the auspices of Financial Institutions Reform, Recovery and Enforcement Act, FNMA, or a special Community Reinvestment Act program.

Eight of the projects in three MSAs received debt funding from their state Housing Finance Agencies (HFAs). These include:

- Boston MSA: Langham Court Cooperative, Washington-Columbia (Granite Properties - Phase I), and La Concha Apartments.
- Kansas City MSA: Blue Hills Take Part I, Signal Hill Townhomes, and Quality Heights Homes.
- Chicago MSA: Plaza on the Park II, and Borinquen Apartments.

13. As noted in Chapter 6, two of the high cost projects in Boston required Section 8 coverage and had been allowed contract rents at 1.44 times FMR by HUD as part of a strategy to move these properties out of the HUD inventory.

These HFA loan funds were the principal source of debt financing for all three of the Boston case study projects, with these projects limiting their use of private loans to bridge financing and/or letters of credit. In Kansas City, the state HFA funds were part of both the interim and permanent financing packages of all three projects, with the Quality Heights project eschewing private debt funds altogether. Similarly, the Borinquen project in Chicago utilized state HFA funding exclusively for both construction and permanent financing. In Chicago's Plaza on the Park II project, the state HFA funds came in the form of a seven-year bridge loan.

Loans from the municipality were made in fourteen of the fifteen projects. Twelve received city loans in the form of Rental Rehabilitation Program or CDBG funds, which sometimes were awarded in combination with city general revenue or "linkage" funds. Although all three projects in the San Francisco/Oakland MSA utilized city loans, only the municipal assistance in the Maria Alicia project involved CDBG funds.

Three projects were awarded HoDAG loans for development. However, in all three cases, receipt of the HoDAG funds was delayed, necessitating additional bridge financing.

4.2.3 Non-Cash Contributions

The value of non-cash resources in the fifteen projects ranged from \$2,029 per unit in Kansas City's Blue Hills Take Part I, to \$59,795 per unit for Boston's Langham Court Cooperative, with a sample average of \$15,283 per unit. In terms of percent of development cost, non-cash contributions ranged from 4.1 percent for Baywood Apartments in Fremont to 32.8 percent for La Concha Apartments in Boston, with a mean percentage of 13.1 percent.

The most frequent forms of non-cash contributions in the projects were interest subsidies, donated staff/developer's fees, and property acquisition write-downs. On average, among the sites, 26.9 percent of the contributions received related to finance/carrying charges, 21.9 percent related to donated developer's fees, 21.7 percent to donated developer's overhead/staff, and 19.1 percent to acquisition.

Financing Subsidies

All fifteen of the projects reported receiving some interest subsidies and/or waived finance fees as part of their development financing. In general, the below market interest rate (BMIR) loans were associated with the public debt financing and were applied to both

construction and permanent financing. These interest subsidies ranged from zero-percent interest rates (on the Boston Redevelopment Authority loan to Langham Court, the city loans to the Maria Alicia Apartments project, the Rental Rehabilitation Program loan to the Florian Gardens Apartments and the HoDAG to Quality Heights Homes), to more shallow interest subsidies such as the 9.4 percent loan provided to Baywood Apartments by the Fremont Redevelopment Authority and the 9.6 percent loan to the Washington/Columbia - Granite Properties (Phase I) project by the Massachusetts HFA.

In some cases, the sources for debt financing did not charge a loan origination fee; this occurred most frequently with the various city loans. The non-cash contribution for financing/carrying charges (shown in the exhibits for the individual nonprofit case studies in Appendix E) is a combination of the valuations of the project interest subsidies (compared to a "conventional financing" standard of ten percent interest) and waived loan origination fees (valued at one percent of the loan amount). For the fifteen projects, the non-cash contributions associated with financing/carrying charges for the development period ranged from \$227 per unit for Washington-Columbia Apartments in Boston, to \$7,301 per unit for another Boston project, Langham Court, with a mean for the sample of \$2,230 per unit.

In addition, since many of the loans with BMIRs were part of the permanent financing of the projects, the value of these subsidies to the projects are even greater than the figure shown for the development period. Some of these permanent loans also were structured as deferred payment or interest only loans. The present values of these various loan concessions are reflected in the findings in Section 4.3.3 below.

Developer's Overhead and Fees, and Donated Staff Time

The other frequently occurring non-cash contribution in the fifteen case studies was donated staff/organizational time, in the form of pro bono professional services and contributed developer's overhead and/or fees. For example, two of the Kansas City projects received substantial contributions of legal assistance (valued at \$125,000 for the Quality Heights project and at \$27,500 for Signal Hill Townhomes). Other projects, such as the Washington/Columbia project carried out by the Codman Square Housing Development Corporation, paid for development-related legal services but received general counsel services for the nonprofit from the same law firm on a pro bono basis.

By far the larger component of the donated staff/organizational contributions, however, was the developer's overhead and fees. As explained in Appendix B, the cost framework assumes a normal rate of 6 percent of the net development cost for a combination of developer's overhead/staff expenses and developer's fees. If the developer received more than this rate, or was explicitly credited by a funding source with a contribution to the project related to these line items that exceeded this amount, the actual rate or credit amount was used in the analysis. If, on the other hand, the developer in the nonprofit project realized less than the six percent rate in a combination of fees/reimbursements and credits for contributions, the difference was imputed as a non-cash contribution.¹⁴

All 15 projects involved contributions of developer's overhead/staff and/or developer's fee. Across all 15 cases, the projects entailed contributions of developer's overhead/staff expenses ranging as high as \$8,075 per unit, and developer's fees as high as \$33,008 per unit. The combined contributed value of these items averaged \$7,098 per unit across the 15 projects. Combined values ranged from \$969 per unit for Kansas City's Blue Hills Take Part I project, to \$41,082 for the Langham Court Cooperative. The value of the contributions for developer's overhead/staff expenses *and* developer's fee represents 46 percent of the average amount of non-cash resources realized in the 15 cases.

It should be noted, however, that the *reported* value of the combined developer's overhead and fee (including both the amount actually received by the developer and the amount

14. This approach was taken because many of the funding sources encountered in the projects would not treat developer's fees or overhead/staff costs as eligible expenses, or would severely limit the amount the developer could receive for these items. This policy seemed to reflect a view that part of the nature of "non-profit development" is that the non-profit sponsor should be prepared to subsidize the project, by waiving such fees or reimbursements and by absorbing these expenses in their general operating budgets. The majority of the non-profit sponsors in the sample seemed to have accepted this viewpoint; they did not even bother to track formally the amount of staff time and organizational expense associated with their development projects (although many of the non-profits spoke of the need for more generous developer's fees).

However, if one of the purposes of this study is to identify obstacles to greater production of affordable housing by non-profits, it is important to attempt to derive estimates of the contributions non-profits are required to make to move their development projects forward. The six percent developer's overhead/fee "standard" was established for the study through discussions with individuals familiar with various types of development, and from a review of cost breakdowns for a sample of non-profit and for-profit projects undertaken during the research design phase of this study. Although arguments can be made about the exact standard, inclusion of an estimate should improve the understanding of the current prerequisites of non-profit housing development.

contributed) in some of the cases considerably exceeded the six percent standard. For example, the \$3,450,929 contribution reported for Langham Court consists of \$678,294 in "developer's overhead" and \$2,713,174 in "developer's fee" credited to the project by the state HFA, plus \$56,461 of a deferred developer's fee of \$1,474,000 negotiated between the sponsor and limited partnership. However, the state HFA figures for developer's overhead and developer's fees appear in the development budget as both "sources" and "uses;" they are essentially off-setting paper entries to reduce the loan-to-value ratio. *The only developer's fee the nonprofit sponsor of Langham Court may realize in cash is from the \$1,474,000 deferred fee, to be paid from future syndication proceeds.* However, because the amount of anticipated syndication proceeds will be insufficient to cover all the anticipated expenses, it is estimated that the nonprofit sponsor will probably realize no more than \$1,414,539 of this amount as a developer's fee. This figure represents *a little less than 6 percent* of the full development budget, while the combined reported value for "cash" and "contributed" developer's fee and overhead represents twenty-two percent.

Although not widespread throughout our sample, the practice exhibited by the Massachusetts HFA (showing part or all of the nonprofit developer's fee and/or overhead as "paper" offsetting entries) is not uncommon. Many Federal development loans or loan guarantees treat "builder's and sponsor's profit and risk allowance" in a similar manner. While this technique may allow the nonprofit to show enough equity to qualify for such loans, the phantom developer's fee approach is clearly a two-edged sword. Despite what may be a large line item in the formal development budget, *the nonprofit may still be hard-pressed to come up with sufficient cash to cover its actual staff and organizational expenses relative to the project. Moreover, any supplementary funds the nonprofit raises for these purposes may be criticized as "exorbitant" when viewed as an addition to the existing "allowance" in the formal budget for developer's fee/overhead.*

Another feature evident among some of the Tax Credit projects was the practice of utilizing deferred developer fee agreements, between the limited partnership and the nonprofit sponsor/developer, to create indebtedness intentionally so that the nonprofit is in a strong position relative to the limited partners to control the future use of the property at the end of the

partnership.¹⁵ The ancillary developer fee agreements also may be negotiated to optimize the eligible basis of the project for Tax Credit purposes. Under either scenario, the amount of developer's fee the nonprofit actually receives may be considerably less than the maximum figure shown in the agreement.

It is thus evident that the use of paper developer's fees as apparent equity for underwriting purposes, and the use of deferred developer fee agreements, may have had the effect of inflating some of the values of contributions relative to developer's overhead and fees in the sample. However, even after making allowances for these factors in the applicable cases, it seems apparent that in the majority of the nonprofit projects the sponsor/developer was required to absorb the costs of a significant portion of the staff and organizational expenses associated with their developments.

Property Acquisition and Other Contributions

Another major category of non-cash resources was associated with the "acquisition" line item and represented an average percentage 19.1 percent of contributions across the 15 projects. Five projects (the 3 Boston developments, Renaissance Apartments in Washington, D.C., and Quality Heights in Kansas City) received donated land collectively valued at \$6,901,500, and ranging in value from \$750 per unit for Quality Heights to \$27,381 per unit for La Concha Apartments in Boston. All 3 Washington, D.C. projects benefitted from waived title/transfer fees or forgiven taxes/liens on the property.

Two projects (Baywood Apartments in Fremont and Renaissance Apartments in Washington, D.C.) received city loan subsidies relative to the acquisition of project sites. The aggregate value of the acquisition-related contributions for these eight projects was \$7,007,833. The forgiven real estate taxes for the three Washington, D.C. cases amounted to another \$364,844, or \$3,040 per unit for these three developments.

Three projects (Signal Hill and Quality Heights in Kansas City, and Langham Court in Boston) obtained non-cash resources in the form of city infrastructure contributions. These non-

15. The non-profit sponsors are concerned about how to maintain the projects as affordable housing once the partnerships terminate, since the limited partners will hold the majority of the project equity at the time. By building up the debt the partnership owes to them, the non-profits hope to secure the properties in return for retiring the outstanding notes.

cash contributions relating to infrastructure had a cumulative value of \$318,000 or \$2,288 per unit for these 3 projects.

4.3 Characteristics of Other Sources of Funds

4.3.1 Numbers of Funding Sources

To achieve the overall funding for their developments, the nonprofits were required to use multiple funding sources. Among the 15 projects, the average number of development funding sources observed per project was 7.8, and the median was 8 sources. The delays relating to securing commitments from this number of sources were considerable. Moreover, for each source that was used for more than one type of financing (pre-development, acquisition, construction, bridge, permanent), multiple closings were generally necessary, adding to settlement and transaction costs. These factors added to the overall costs of development experienced by the nonprofits.

4.3.2 Leveraging of Private Financing

The nonprofits were able to leverage a considerable amount of private funds for the developments using the various forms of public assistance which they received. On average, every dollar in public funding or a public non-cash contribution was matched by a dollar of private financing, usually in cash. According to the nonprofit sponsors, they were thus able to achieve significant private investment in many neighborhoods where disinvestment had been the norm.

4.3.3 Present Value of Subsidies and Contributions

Exhibit 4.4 provides yet another perspective on the extent of subsidies and contributions included in the fifteen case-study projects. In this comparison, we compute the present value of all subsidies (other than rental assistance), including:

- The value of all grants or donations at development:
- The value of non-cash resources used in development; and
- The value of subsidies on long-term loans. This is calculated as the difference between the present value (discounted at 10 percent, compounded monthly) of the expected loan payments and the amount loaned.

Exhibit 4.4
Relative Importance of Subsidies and Contributions

Site	Full Development Cost	Present Value of Subsidies and Contributions	Percent of Total
<i>Boston, MA</i>			
Langham	\$22,231,764	\$6,812,544	30.6%
Washington/Columbia	\$16,284,522	\$4,770,911	29.3%
LaConcha	\$12,439,237	\$4,393,162	35.3%
<i>Washington, D.C.</i>			
Dorsey Moore	\$2,996,321	\$1,625,468	54.2%
Florian	\$1,866,265	\$777,909	41.7%
Renaissance	\$1,945,132	\$713,440	36.7%
<i>Chicago, IL</i>			
Washington Blvd.	\$3,586,053	\$1,587,388	44.3%
Plaza on the Park II	\$3,612,411	\$1,866,748	51.7%
Borinquen	\$2,829,859	\$1,899,119	67.1%
<i>Kansas City, MO</i>			
Blue Hills	\$858,282	\$458,700	53.4%
Signal Hill	\$1,351,984	\$518,683	38.4%
Quality Heights	\$2,916,937	\$1,718,649	58.9%
<i>San Francisco, CA</i>			
Baywood	\$9,137,673	\$1,096,268	12.0%
Maria Alicia	\$4,455,348	\$2,698,550	60.6%
Frank Mar	\$16,829,960	\$5,419,385	32.2%
<i>Average</i>	\$6,889,450	\$2,423,795	43.1%

As shown in the exhibit, the capital value of project subsidies ranged from a low of \$458,700 for Kansas City's Blue Hills Take Part I project to over \$6.8 million in the Langham Court project in Boston. In percentage terms, the value of these subsidies represented 43 percent of full development costs, ranging from 12 percent (or \$13,369 per unit) at Baywood to over 67 percent (\$57,327 per unit) in the Borinquen project in Chicago. Across the 15 projects, 11 of the 15 received subsidies whose present value exceeds one-third of full development costs.

CHAPTER 5

USES OF FUNDS

This chapter describes the types and magnitudes of development costs among the 15 case study projects.

Exhibit 5.1 presents information on component costs of development, including donated or "non-cash" elements.¹ Total costs, as shown in the first column of numbers in Exhibit 5.1, include these non-cash contributions and thus may be considerably higher than development costs as recognized by the project sponsors. The second and third columns of figures in the exhibit show the amount and percentage of costs for each site that are attributable to these "non-cash" resources. On average, these items accounted for 13.1 percent of full development costs as measured by this study. However, there was considerable variation across the 15 sites, with the proportion of costs covered from non-cash sources ranging from 4.1 percent of costs in the Baywood development (Fremont, CA) up to 32.8 percent in the La Concha project (Boston). As will be described in more detail below, much of this variation reflects the source from which the project site was acquired and the specific mechanism used to finance acquisition (grant versus loan versus outright donation).

5.1 Components of Development Costs

Exhibit 5.1 also presents the allocation of costs among the twelve cost categories used in the study's framework. Readers should note that there is the potential for some error in these allocations, since the source documents did not always provide sufficient detail to break out individual cost components. Also, certain categories are more likely to include the value of non-

1. As described previously, an objective of the study was to collect data on the *full* costs of development, including the value of all donated or non-cash resources used in the project, such as:

- Donated or "written-down" land;
- Forgiveness of delinquent taxes or other city charges;
- Donations of materials or equipment;
- Site or infrastructure improvements contributed by local government;
- Waived fees or permit requirements;
- Pro-bono legal assistance or other professional services;
- Unreimbursed staff time used for project planning and development activities;
- The value of any financing subsidies received during construction;
- Other contributions, including reduced or deferred development fees.

Exhibit 5.1
Components of Development Costs: Uses of Funds

Site	Full Development Cost	Amount Non-Cash Contribution	Percent Non-Cash Contribution	P L A N	A C Q	F I N	R E L O C	C O N S T	T A X E S	M K T	R E S	L E G A L	O H/ S T F	F E E	S Y N D
<i>-- Total Component Cost as a Percentage of Full Development Cost --</i>															
<i>Boston, MA</i>															
Langham	\$22,231,764	\$5,022,739	22.6%	3.5%	4.0%	9.9%	0.0%	51.9%	0.3%	0.4%	1.5%	2.6%	3.1%	18.8%	4.0%
Washington/Columbia	\$16,284,522	\$4,460,352	27.4%	1.7%	19.9%	5.5%	1.1%	53.2%	0.3%	0.0%	2.4%	1.3%	1.6%	7.3%	5.7%
LaConcha	\$12,439,237	\$4,074,579	32.8%	4.4%	21.4%	5.2%	2.0%	44.3%	0.3%	0.0%	3.7%	0.7%	1.2%	11.7%	5.2%
<i>Washington, D.C.</i>															
Dorsey Moore	\$2,996,321	\$287,321	9.6%	3.8%	11.7%	6.7%	0.0%	68.2%	1.0%	2.0%	0.0%	0.8%	2.9%	3.0%	0.0%
Florian	\$1,866,265	\$96,163	5.2%	1.5%	30.1%	10.7%	0.0%	47.7%	0.7%	0.7%	2.1%	0.7%	2.0%	3.7%	0.0%
Renaissance	\$1,945,132	\$484,231	24.9%	1.6%	23.1%	7.7%	0.0%	54.0%	0.1%	0.2%	2.1%	3.4%	3.3%	4.4%	0.0%
<i>Chicago, IL</i>															
Washington Blvd.	\$3,586,053	\$229,218	6.4%	2.4%	1.1%	6.7%	0.0%	75.7%	0.6%	0.6%	0.0%	1.8%	0.6%	5.1%	5.6%
Plaza on the Park II	\$3,612,411	\$238,391	6.6%	3.5%	11.5%	6.3%	0.6%	64.7%	0.6%	0.3%	0.0%	2.4%	3.2%	2.8%	4.1%
Borinquen	\$2,829,859	\$202,028	7.1%	1.3%	15.5%	4.7%	0.7%	65.6%	0.8%	0.1%	0.0%	1.3%	0.0%	5.7%	4.3%
<i>Kansas City, MO</i>															
Blue Hills	\$858,282	\$36,523	4.3%	1.9%	11.6%	3.4%	0.0%	67.2%	0.1%	0.0%	0.7%	2.7%	0.6%	1.5%	10.3%
Signal Hill	\$1,351,984	\$129,755	9.6%	3.9%	1.5%	2.6%	0.0%	68.6%	0.3%	0.0%	4.4%	2.6%	4.0%	3.0%	9.1%
Quality Heights	\$2,916,937	\$568,936	19.5%	2.0%	2.4%	3.5%	0.0%	72.9%	0.0%	0.2%	1.8%	6.2%	1.7%	3.9%	5.4%
<i>San Francisco, CA</i>															
Baywood	\$9,137,673	\$375,641	4.1%	2.1%	9.6%	5.0%	0.0%	59.9%	0.1%	0.2%	10.8%	0.6%	2.3%	0.6%	8.7%
Maria Alicia	\$4,455,348	\$493,913	11.1%	3.0%	9.4%	7.8%	0.0%	58.6%	0.6%	0.7%	2.4%	1.5%	1.5%	11.2%	3.3%
Frank Mar	\$16,829,960	\$820,233	4.9%	2.9%	13.6%	7.2%	0.0%	59.5%	1.0%	0.3%	1.5%	1.4%	2.1%	10.0%	0.6%
Minimum			4.1%	1.3%	1.1%	2.6%	0.0%	44.3%	0.0%	0.0%	0.0%	0.6%	0.0%	0.6%	0.0%
Maximum			32.8%	4.4%	30.1%	10.7%	2.0%	75.7%	1.0%	2.0%	10.8%	6.2%	4.0%	18.8%	10.3%
Average Percent			13.1%	2.6%	12.4%	6.2%	0.3%	60.8%	0.5%	0.4%	2.2%	2.0%	2.0%	6.2%	4.4%
Average Percent of Total Component Cost Attributable to Non-Cash Contributions				4.3%	30.1%	37.7%	0.0%	1.0%	13.3%	0.0%	0.0%	9.7%	79.2%	41.4%	0.0%
Average Percent of Total Non-Cash Contributions Attributable to Non-Cash Contribution of Component				1.8%	19.1%	26.9%	0.0%	4.2%	1.6%	0.0%	0.0%	2.9%	21.7%	21.9%	0.0%

KEY: PLAN = Planning and Design
ACQ = Acquisition
FIN = Finance/Carrying Charges
RELOC = Relocation

CONST = Construction
TAXES = Real Estate Taxes
MKT = Marketing
RES = Reserves

LEGAL = Legal and Organization
OH/STF = Developer's Overhead and Staff
FEE = Developer's Fee
SYND = Syndication Costs

cash contributions, which are estimates. In general, however, the source data were better than anticipated and provided a good basis for examining the various components of development costs across nonprofit projects. In addition to showing the percentage distribution of cost components, Exhibit 5.1 also indicates the relative importance of non-cash contributions within each cost component, and the relative importance of non-cash contributions in each cost component to the total of non-cash contributions.

5.1.1 Planning and Design

This category includes architecture and engineering costs as well as pre-development expenses for planning or feasibility studies. On average, this category accounted for 2.6 percent of full development costs. The majority of the sponsors received grants or low-interest loans (from city governments in four cases, LISC in five cases, and Enterprise or other nonprofit support organizations in three cases) to help cover these pre-development costs.

5.1.2 Acquisition

The acquisition category includes the purchase price of the land and structures, and generally closing costs or other acquisition-related expenses. On average, acquisition accounted for 12.4 percent of full development costs and was the largest single cost category other than construction. Not surprisingly, acquisition costs were higher as a proportion of total costs for the rehab projects, averaging about 17 percent for these projects as opposed to 7 percent for the new construction sites. Overall, *for the new construction projects* the most expensive acquisition as a proportion of development costs (and *for all projects* in terms of out-of-pocket costs) was the Frank Mar project in Oakland's Chinatown neighborhood. This site was purchased from a private owner in a mixed commercial/residential area with generally high land values, and acquisition accounted for 13.6 percent of full development costs.

Where land was donated or the cost of acquisition written down (the three Boston cases, the three Washington, D.C. cases, and Quality Heights in Kansas City), the value of the donation, tax forgiveness, or other subsidy has been included in the acquisition category as a non-cash contribution. Non-cash contributions amounted to an average 30.1 percent of acquisition costs. Such donations and write-downs were the fourth largest source of non-cash contributions recorded by the study (averaging 19.1 percent of the non-cash total). In several

other cases sponsors paid full market value for the site, but local governments subsidized land acquisition through a grant (which was recorded as a cash contribution) or a below-market loan. These cases include the Dorsey Moore project in Washington, D.C. and the three San Francisco cases.² Thus, the majority (two-thirds) of the sites received some form of assistance specifically for site acquisition.

It is interesting to note that the five projects that "paid full price" for acquisition (that is, did not receive subsidies or non-cash donations relative to this cost element) averaged costs that were only 8.2 percent of full development costs, despite the fact that 4 of the 5 projects concerned rehabilitation efforts, which for the sample averaged costs at 17 percent. This finding, and the range among the 15 projects in the percentage of development costs represented by acquisition (from 1.1 percent to 30.1 percent), point to the observation that although some of the nonprofit projects were in desirable locations, many were sited in severely distressed neighborhoods where there was otherwise little private investment occurring or competing positive uses for the land.

5.1.3 Finance and Carrying Charges

This category includes actual development period interest and related charges, plus the value of construction-period financing subsidies as estimated by the study. (See Appendix B for details on how these were calculated.) On average, financing costs accounted for 6.2 percent of full development costs, and an average of 37.7 percent of these financing costs were attributable to the value of financing subsidies (non-cash resources) associated with below market interest rates, deferred payment loans, and waived financing fees during development.

5.1.4 Relocation

Only four of the nine rehabilitation projects reported any relocation costs, all of which were covered as out-of-pocket expenses. As shown in Exhibit 5.1 the highest relocation costs as a percentage of full development costs were paid by La Concha in Boston (2 percent of total

2. Acquisition for the three San Francisco cases was also unusual in that the land is held separately by the non-profit and only leased to the project partnership. (The separate ownership of the land was intended to provide additional protection for the non-profit at the dissolution of the partnership.) Despite this arrangement, in this analysis the land has been treated as though it were owned by the partnership, to maintain comparability across sites.

costs). Across the 15 projects, these costs averaged less than one percent of full development costs. The costs associated with relocation were modest across the 15 cases, despite the fact that nine of the projects involved rehabilitation of existing structures and most would be subject to the Uniform Relocation Act. In some cases, the properties had deteriorated to the point that they were uninhabitable. In other cases, the sponsors pursued a carefully phased approach to rehabilitation to minimize relocation and disruption to tenants.

5.1.5 Construction

The construction cost category includes demolition, site work, the construction contract, fees and permits, and other hard costs. On average, construction costs accounted for 61 percent of full development costs. They ranged from 44.3 percent of full development cost in La Concha to 75.7 percent in the Washington Boulevard project.

Only three projects reported any non-cash contributions to construction costs: deferred city fees and sidewalk construction at Langham Court; city-paid sidewalks and curbs in Signal Hill; and city infrastructure plus donated materials in Quality Heights. On average, such contributions accounted for a small proportion of construction costs (1.0 percent). Construction contributions averaged only 4.2 percent of non-cash contributions across the projects. At the project level, these donations represented a very minor non-cash resource in the Boston site, but a fairly important resource in the two Kansas City sites. In Quality Heights, for example, infrastructure and materials donations accounted for about 11 percent of full development costs.

5.1.6 Real Estate Taxes

Taxes during construction accounted for less than one percent of full development costs, on average. Non-cash contributions in this category included tax forgiveness for 100 percent of the development period charges for two Washington, D.C. projects.

5.1.7 Marketing

On average, marketing and lease-up costs accounted for less than one percent of full development costs. This no doubt reflects the fact that available subsidized housing is less than the number of households eligible and desirous of it in most communities. All of these costs reflected out-of-pocket expenses.

5.1.8 Reserves

The reserve category is intended to measure pre-funded project reserves. Reserves averaged 2.2 percent of full development costs across the 15 projects. Four projects had no pre-funded reserves. Among the others, reserves ranged from 0.7 percent in Blue Hills Take Part I up to almost 11 percent in the Baywood project, where much of the allowable developer's fee will be directed to this use.

Although a substantial pre-funded reserve would add to the development costs, one would presume that projects with such reserves would be more successful than their counterparts without such reserves in dealing with unexpected operating expenses or revenue shortfalls. Because of the variations among the sample in levels of pre-funded reserves, as part of the recommendations in Chapter 7 on areas for additional research, we are proposing that follow-up research on operating experiences of the 15 projects should examine the on-going role of the reserves.

5.1.9 Legal and Organizational Costs

Legal and organizational costs accounted for 2 percent of total costs in the typical project. In most cases, legal services were purchased at market rates; in fact, several organizations mentioned they had policies against the use of donated services, believing that "you get what you pay for." Three projects (two in Kansas City and one in Boston) received project-specific pro-bono legal services from third parties. Signal Hill and Quality Heights received free services from their local Legal Services offices, with Quality Heights receiving pro bono help from Legal Services as well as from a private law firm. Nuestra Comunidad in Boston also received some pro-bono legal services from the general counsel for the organization, although the La Concha Apartments project still incurred out-of-pocket legal costs associated with other attorneys involved in the partnership formation, property and liability transfers, and closings.

In addition, in Washington, D.C.'s Florian Gardens Cooperative project, part of the non-cash contribution of Project WISH was in the form of the work of the project director -- who was trained as an attorney -- on legal issues relating to the project.

5.1.10 Overhead/Staff

In most of the 15 projects studied, nonprofit sponsor staff costs were *not* reimbursed as a separate line item in the project budget. While several organizations had government funding that covered at least a portion of their staff costs, most looked to the regular organizational budget, plus any development fees retained, to cover the on-going costs of maintaining an in-house development staff. Such staff might include accounting and financial personnel, staff developers, architectural or design staff, marketing staff, or construction supervisors.

In only three of the fifteen projects (La Concha, Washington/Columbia, and Plaza on the Park) was any staff time explicitly reimbursed through the project budget. In the remaining 12 sites, the field research staff collected estimates of staff hours and rates and credited to the project as non-cash contributions. Overhead and staff costs account for 2 percent of full development costs, on average. Of this amount, the vast majority -- an average 79.2 percent of overhead/staff costs -- was in the form of non-cash contributions which were estimated for this study.

5.1.11 Developer's Fee

Developer's fees were a particularly problematic cost category for this data collection (see Appendix B). Some sites (Baywood and Frank Mar) received fees that were less than the budgeted amount as a result of local government restrictions:

- Baywood's sponsor was allowed to retain \$52,000, only about 10 percent of the budgeted \$500,000 fee amount. This fee limit was determined by the City of Fremont, which otherwise provided generous financing for the project as a whole. Nevertheless, the \$52,000 was insufficient to cover estimated staff time on the project, much less to build a development fund for future work.
- Frank Mar's sponsor will receive a negotiated fee, probably in the \$400,000 to \$500,000 range, compared to \$1.7 million shown in the actual development pro forma.

In other cases, some of the budgeted fee was used to cover construction overruns (Quality Heights, Blue Hills, and Signal Hill). Finally, in several cases (for example, the three Boston cases) reported fees were partially "paper equity" credited to the project by the funding source but not actually received, or were so speculative (in the sense that they would be paid at some future time only if funds were available) that they could not reasonably be counted on as a source of return to the organization.

Exhibit 5.1 indicates that, on the average, the developer's fee among the sample was 6.2 percent of full development costs. These figures reflect the computation of a contributed fee to the extent that the actual combination of reimbursement for overhead/staff expenses and developer's fee did not amount to 6 percent. The framework developed for this study counts as the cash part of the total development fee only the actual fee retained by the organization as an out-of-pocket (cash) expense. Where all or some of the fee was used for other purposes (construction overruns or reserve accounts), these categories have been credited with these amounts. Where a portion of the fee was "paper only" or highly speculative, this amount was recorded as a non-cash contribution under the line item for developer's fee. Non-cash contributions were attributed, on average, for 41.4 percent of total developer's fee.

Exhibit 5.2 shows for each project the amount of fee actually retained by the project sponsor, the amount that was originally approved for the project budget (a portion of which may have been contributed for other purposes), and the amount of additional fee that would be needed to provide each sponsor with the six percent benchmark for combined overhead and fee.

At least 8 of the 15 projects actually retained less than the allowable developer's fee indicated by the pro forma. In one additional case (Frank Mar) the final fee has not yet been negotiated, but it will certainly be less than the \$1.7 million shown. Actual retained developer's fee averaged \$3,811 per unit which is 3.6 percent of development costs.

It is worth noting that in a recent study of Tax Credit projects (91 percent of which were **pure for-profits**) developers received (an average) fee of 9.5 percent.³ The definition utilized for developer's fee in that report appears to be a combination of the "developer's overhead/staffing" *and* "developer's fee" categories in this study. While the 15 nonprofit projects cannot be assumed to be representative of the universe of nonprofit developments, it is interesting to contrast the report's 9.5 percent figure with the 3.9 percent of average development costs which the nonprofits actually retained for combined developer's overhead/staffing and fee in our study.

Many of the nonprofits' funding sources denied or set strict limits on reimbursement for developer's overhead and fees, as well as for pre-development expenses and bridge financing costs. By rejecting such expenses, these funding sources not only withheld reimbursement for

3. *Evaluation of the Low Income Housing Tax Credit*, Final Report (Fairfax, VA: ICF Incorporated, February 1992), p.4-6.

Exhibit 5.2
Developer's Fees

Site	Actual Fee Retained	Total Reported Fee (Including Contributions)	Overhead/Staff Plus Reported Fee Received	Total Development Costs Net of Overhead/Staff Plus Reported Fee	Additional Fee Required to Meet 6% Benchmark	Total Fee
<i>Boston, MA</i>						
Langham	\$1,414,539	\$4,187,174 ¹	\$4,865,468	\$12,500,828	\$0	\$4,187,174
Washington/Columbia	\$0	\$1,190,124 ²	\$1,453,744	\$13,377,034	\$0	\$1,190,124
LaConcha	\$84,602	\$1,450,887 ³	\$1,604,607	\$9,230,023	\$0	\$1,450,887
<i>Washington, D.C.</i>						
Dorsey Moore	\$89,000	\$89,000	\$176,000	\$2,644,321	\$0	\$89,000
Florian	\$49,450	\$49,450	\$86,925	\$1,673,702	\$18,713	\$68,163
Renaissance	\$86,178	\$86,178	\$151,178	\$1,642,776	\$0	\$86,178
<i>Chicago, IL</i>						
Washington Blvd.	\$98,000	\$98,000	\$118,800	\$3,264,269	\$84,184	\$182,184
Plaza on the Park II	\$88,702	\$100,000 ⁴	\$214,000	\$3,184,411	\$0	\$100,000
Borinquen	\$71,075	\$71,075	\$71,075	\$2,598,603	\$89,106	\$160,181
<i>Kansas City, MO</i>						
Blue Hills	\$307	\$32,982 ⁵	\$38,039	\$802,487	\$12,393	\$45,375
Signal Hill	\$40,485	\$75,000 ⁶	\$128,820	\$1,128,859	\$0	\$75,000
Quality Heights	\$43,000	\$43,000	\$94,000	\$2,657,827	\$71,110	\$114,110
<i>San Francisco, CA</i>						
Baywood	\$52,000	\$840,731 ⁷	\$1,051,571	\$7,823,262	\$0	\$840,731
Maria Alicia	\$196,000	\$500,000 ⁸	\$567,000	\$3,321,348	\$0	\$500,000
Frank Mar	\$1,680,000	\$1,680,000	\$2,040,000	\$12,749,960	\$0	\$1,680,000

- Notes:
- "Paper" equity/expense line items in development budget.
 - \$1,006,400 BSPRA + deferred developer's fee from syndication proceeds of \$183,724.
 - BSPRA allowance of \$603,091 plus deferred developer's fee of \$763,194 in the form of a loan.
 - Balance contributed.
 - \$32,675 of this amount went to construction.
 - \$34,515 of this amount went to construction.
 - \$788,731 of this amount went to reserves.
 - \$304,000 of this amount was loaned by sponsor to project.

real costs incurred by the nonprofits, but also would exclude these expenses from the formal development budget. This, in turn, would result in an incomplete picture of development finances.

The syndication proceeds from Tax Credits were often applied to pay for such soft costs associated with the nonprofit developments, but with the realization of developer's fees through Tax Credits often deferred, the nonprofits were forced to subsidize the projects themselves through contributions of staff time and other organizational expenses. The view that nonprofits should be expected to partially underwrite the costs of development out of their general operating revenues apparently has become so institutionalized that many of the nonprofits in our sample did not even keep close track or detailed records of their project-related organizational expenses. In some cases, therefore, even when funding for administrative expenses was available, the nonprofits were not in a position to take full advantage of it.

The nonprofits' frequent inability to recoup their administrative expenses relative to the housing development projects, or to realize significant developer's fees as a mechanism to build up capital, appears to be an obstacle to greater housing production. Tight administrative budgets for the nonprofits have resulted in low salary levels and small staffs that are generally stretched extremely thin. This contributes to high turn-over, the loss of expertise, and fluctuations in organizational capacity. Further, without a mechanism to build up capital, the nonprofits lack funds to purchase options or for other pre-development expenses. They therefore have considerable difficulty in taking advantage of development opportunities in an expeditious way. Across the fifteen project, for example, the average pre-development period *after* identification of a site was more than 29 months.³

5.1.12 Syndication Costs

The final Use of Funds category is syndication costs. This includes expenses related to the sale of Tax Credits (legal costs, consultants, Tax Credit application fees), partnership management fees, and interest on any bridge loans ultimately repaid from investor contributions. Since bridge loan interest is a cost of raising investor equity (typically involving a pay-in over

3. Because the HOME Program treats pre-development costs and developer's fees as allowable expenses for non-profit developers, it would be interesting to compare the experience under HOME with other efforts by non-profits.

five to eight years), we have included it as syndication expense. As shown in Exhibit 5.1, on average, syndication expenses accounted for 4.4 percent of full development costs. All of these costs were treated as out-of-pocket expenses.

5.2 Comparison of the Nonprofits' Hard Costs with Industry Norms

Exhibit 5.3 provides an additional perspective on the construction expense issue, comparing actual per square foot hard costs observed in the six nonprofit new construction projects in the study to a build-up of estimated construction costs based on the features of the projects and cost data published by R.S. Means.⁴ The objective here is to compare the hard costs observed in the nonprofit cases with typical industry (for-profit) market costs for the area and time period.

The manual for new construction costs, *Means Square Foot Costs, 1991*,⁵ proved the most useful source of information for comparisons with the housing developments built by the case study nonprofit sponsors. Means cost estimates include labor, material, overhead, and profit, and general conditions and architect's fees for a variety of residential and commercial building types. The estimates specifically exclude financing costs, premiums for material and labor, and unusual business or weather conditions. Some cautions must be raised, however, before we use estimates from the R. S. Means manual to compare with the construction costs among the projects studied. The Means costs are derived from typical construction across the metropolitan area. The projects studied may differ from "typical" market-rate multifamily construction in important ways:

- Units may be larger or smaller than average, the latter costing more per square foot (but less per unit) because smaller units require nearly as much bathroom and kitchen plumbing and fixture cost as larger units;

4. The R.S. Means Company publishes a widely-used series of construction cost manuals, including a manual for new construction costs, one for repairs and remodeling, and a third for site work. These manuals are used by architects, planners, engineers and construction professionals to estimate construction costs for typical building structures. The volumes provide national average costs, with time and location modifiers, as well as costs for common additives and amenities such as kitchen appliances. R.S. Means also provides detailed cost information on everything from heating systems to ceiling tiles. Such detailed cost information allows fairly complete cost estimates if all the construction specifications are available.

5. R.S. Means Company, Inc., Kingston, MA.

Exhibit 5.3

Construction Costs Per Square Foot: RS Means Compared to Case Study Projects

Development	A. Actual Construction Costs (per square foot, 1991 dollars)	B. RS Means Estimated Construction Costs (per square foot, location adjusted)	C. Difference: Actual – RS Means	D. Percent Difference
Signal Hill Townhomes (Kansas City, MO)	\$43.06	\$51.22	(\$8.16)	-19%
Baywood Apartments (Fremont, CA)	\$70.89	\$74.71	(\$3.82)	-5%
Maria Alicia Apartments (San Francisco, CA)	\$80.82	\$70.22	\$10.60	13%
Quality Heights Homes (Kansas City, MO)	\$57.88	\$49.89	\$7.99	14%
Frank Mar Community Housing (Oakland, CA)	\$83.68	\$69.68	\$14.00	17%
Langham Court (Boston, MA)	\$103.17	\$82.47	\$20.70	20%
<i>Average</i>	\$73.25	\$66.36	\$6.88	6.7%

Note: Column D = (Column A – Column B)/Column A.

- Various subsurface conditions impose very different sitework and foundation requirements;
- Building code requirements vary from city to city, often with more stringent requirements in older central cities;
- Site and neighborhood considerations often complicate the building configuration and impact costs;
- Metro-average conditions often do not reflect realities of central city development, with cramped lot sizes and need for round-the-clock security, for example;
- Developments created without federal assistance do not encounter Davis-Bacon prevailing wage requirements, which may impact costs.

The Means manual reflects the cost to build a *new* building, not that of rehabilitating an existing structure.⁶ Therefore, the comparisons presented in Exhibit 5.3 are limited to the six new construction projects among the fifteen sites, with full awareness that some of the factors mentioned above may contribute to variance from the Means estimate. In order to compare the actual per square foot construction costs with R.S. Means estimates, some adjustments have been made to both sets of figures. First, actual total construction costs for each nonprofit project were divided by the total square footage of each development (including common areas), and then inflated to 1991 dollars using the Means inflator. This provided a per square foot construction cost in 1991 dollars for each nonprofit development shown in the exhibit.

Derivation of comparable costs from the R.S. Means data began by identifying the table of costs for the structure type most closely resembling the nonprofit development. Per-square-foot construction cost data were obtained from the Means table corresponding to the actual development's frame and exterior wall type, and total square footage. Architects' fees were subtracted, because these were excluded from actual construction costs in the nonprofit sponsored projects. All of the nonprofit sponsors included kitchen appliances and other amenities in their construction cost totals. R.S. Means provides per unit estimated values (generally expressed as ranges) for these amenities. Modest values for each amenity were selected from these ranges and added to the base estimate. In addition, we estimated costs for

6. Cost estimates for rehabilitation projects could be made using the repairs and remodeling volume. However, we would need extensive and detailed information on all construction activities and specifications; such detailed information was not collected as part of this study.

parking garage or lot construction as appropriate. Finally, a location factor was applied to adjust the R.S. Means estimate to cost levels in the nonprofit sponsor's community.

The resulting R.S. Means estimated total direct construction cost appears in the second column of Exhibit 5.3; the percentage difference between the R.S. Means estimate and actual costs is also shown. Across the 6 cases, actual construction costs exceeded the R.S. Means estimates by an average of 7 percent. Two of the nonprofit projects (Signal Hill and Baywood) showed actual construction costs that were below those derived from the R.S. Means manual. In the Baywood case, the project developer had estimated a significant hard cost savings on the job due to economies of scale associated with using the same contractor for three separate developments built on the site. In the remaining four cases, actual construction costs exceeded the Means estimates by 13 to 20 percent. However, the Means figures should be considered only rough estimates, since we do not have all of the data on the nonprofit developments that would be needed to calculate expected construction costs with precision. As already noted, the R. S. Means data are averaged across all multifamily construction in the metro area and may not represent well the center city development conditions of the projects studied. For example, the Langham Court project was developed under a number of conditions that would affect cost:

- The project had to meet the historical landmark review conditions of the Boston Landmarks Commission, the South End Landmarks Commission, and the state historic commission as well as the design review of the Boston Redevelopment Authority--which added to design costs and to construction detail and masonry volume;
- The project includes a large community room, provided open space developed on a deck, and, most importantly, was forced to develop an underground parking garage for 52 cars because of off-street parking requirements;
- The project had to provide around-the-clock security for construction materials and equipment during the construction period.

The "normalized" figures may very well not be completely normalized for all important factors and should therefore be interpreted with considerable caution.

In addition to the comparison of the nonprofit direct construction costs to industry norms for new construction projects, the study also assessed how the construction costs varied among the nonprofit projects. Based on this latter analysis, the variation in direct construction costs for the new construction projects appears to be smaller than the variation in full development costs. Much of the variation appears to be in the so-called soft cost categories of planning,

acquisition, financing, legal, organizational and overhead, and fees. This may be a reflection of the particular models for development followed in each of the MSAs, or of the differences across sponsors in their efficiency of development, or of more idiosyncratic differences in the projects themselves.

5.3 Additional Observations Regarding Comparisons of Nonprofit and For-Profit Costs

In the course of the analysis of the 15 nonprofit projects, careful consideration was given to approaches that might be followed to perform a valid nonprofit/for-profit comparison of costs. As pointed out in Chapter 1, the scope of this study did not allow for the identification and comprehensive data collection for 15 comparable for-profit projects in the selected MSAs. As a less research-intensive approach, we surveyed other potential sources of comparable for-profit development data, for industry "norms" that might be used in constructing a for-profit/nonprofit comparison. In addition to the R.S. Means indices, these sources included:

- *Evaluation of the Low Income Housing Tax Credit (Final Report)*. ICF, Inc., February 1991.
- *The Cost of HUD Multifamily Housing Programs*. Urban Systems Research & Engineering, Inc., May 1982;
- *Evaluation of the Rental Rehabilitation Program (Final Report)*. The Urban Institute, April 1987; and,
- The *Development Profiles* series produced by the Urban Land Institute.

All of these sources have the problem of not matching the cost components and/or types of projects in our nonprofit study, particularly the latter two sources. In addition, there is the underlying issue of the validity of comparing the data from these sources with the unrepresentative sample of nonprofit projects in our study.

For example, suppose one wanted to compare the principally for-profit Tax Credit study data with the nonprofit study's experience relative to the three non-high cost MSAs (Washington, D.C., Chicago, and Kansas City). One could take the average per unit new construction cost from the ICF Tax Credit study of \$47,947 and the average substantial rehabilitation (over \$10,000 per unit) figure of \$56,239, and compute a weighted average (to reflect the three new construction and six substantial rehabilitation projects in the Washington, D.C., Chicago and Kansas City MSAs) of \$53,475. This figure could be normalized by adjusting by R.S. Means's

30-city cost factor of 213.4 for 1990, and dividing by 196.2 for 1987 (the year of the ICF data), resulting in the normalized per unit cost of \$58,163. This compares with the average normalized full development costs for the nonprofit projects in those three MSAs of \$50,289. However, because the nonprofit sample is unrepresentative, this does NOT necessarily indicate that nonprofit costs are lower than for-profit ones. In fact, any conclusions about quantitative comparisons probably would be misleading.

An alternative approach would be to examine the Tax Credit study's database to identify comparable for-profit projects within the specific MSAs. In particular, we would be interested in looking at data for for-profit Tax Credit projects in our study's two high cost MSAs (Boston and San Francisco), to assess whether these high cost levels were also experienced by the for-profit projects, and in what cost categories were the differences the greatest. Although the representativeness of the Boston and San Francisco nonprofit cases would still be at issue, such an assessment would at least help to refine our identification of nonprofit cost factors where additional research would be warranted. Unfortunately, Massachusetts and California were two of the five states that did not participate in ICF's Tax Credit study.

Because the Boston projects were among the higher cost projects, we obtained for comparison preliminary information from City officials on recent affordable housing projects (occupied or construction started) of 24 or more units. The figures, compiled in Exhibit 5.4, provide a rough indication about how the projects in this study fit in terms of cost and also about whether developments undertaken by for-profit developers were appreciably different. The five *for-profit* developments had *cash* development costs per unit ranging from \$73,150 (rehabilitation of 24-units of 3-6 unit wood frame buildings) to \$199,925 (122-unit, new construction, Tax Credit project). The four *nonprofit* projects ranged from \$91,325 per unit (rehabilitation of 71-unit as a cooperative) to \$135,465 (41 units, Tax Credit). (Two nonprofit projects of 40 and 34 units scheduled for construction in 1993 have currently estimated costs of \$139,318 and \$151,763.) While certainly not conclusive, these figures suggest that the projects in the current study are roughly the same cost range as other projects (both for-profit and nonprofit) in Boston. City officials noted that the diminishing availability of state funds and concerns about neighborhood stabilization are inducing changes in project configurations. More attention is being directed to rehabilitation of 3- and 6- wood-frame family structures, typically at much lower cost than the larger, brick and masonry buildings in our study. The City also is

Exhibit 5.4: Additional Boston Affordable Housing Development					
	Developer	Status	# of Units	Per Unit Cost^a	Comments
Hyde Square	Non-Profit	75% completed	41	\$135,465	LIHTC, new construction
Stony Brook Gardens	Non-Profit	Completed	50	\$135,132	LIHTC, new construction and (minor) rehabilitation
Project Family Independence	Non-Profit	Occupied	15	\$129,333	Rental, new construction (modular), to become coop
Lower Roxbury Tenant Cooperative	Non-Profit	Occupied	71	\$91,326	Cooperative, rehabilitation (not LIHTC)
Parmelee Court	For-Profit	Occupied	74	\$160,228	LIHTC, rental, new construction
Douglass Plaza	For-Profit	Occupied	122	\$199,925	LIHTC, rental, new construction
Lucerne Gardens	For-Profit	In construction	45	\$151,669	LIHTC, new construction
Audubon/Baker	For-Profit	Occupied	29	\$144,009	LIHTC, rental, rehabilitation
Smith Properties	For-Profit	25% completed	24	\$73,150 ^b	Rental, scattered sites, rehabilitation, 3-6 unit wood frame

^a Cost figures for completed projects based on cost certifications; costs for unfinished projects based on latest pro forma estimates.

^b City official says this figure will increase when project is syndicated.

working with the financial community to try to streamline financing through lead lender models and standardization of underwriting.

Despite the absence of a statistically reliable framework for comparisons, our analysis of the 15 nonprofit projects does permit us to offer some commentary and preliminary speculation on whether a for-profit sponsor might have incurred higher or lower expenses in connection with the primary development processes and cost elements. Below we comment on major factors affecting costs.

Development period: As noted previously, on average the nonprofit sponsors in the study utilized funding from 7.8 sources to achieve full financing for their projects.⁷ The effort required to put together these complex financing packages, and the partial dependence on public funding with long approval processes (e.g., the HoDAG development awards, and the Florian Gardens's Rental Rehabilitation funding), often stretched out the nonprofit's development period considerably. Although the mean construction period for the 15 projects was 11.7 months (which compares quite favorably to the average construction periods of 13.3 months observed in the 1982 study of HUD Multifamily Housing Programs⁸), the average pre-development period -- during which financing was being secured -- was 2 1/2 times as long, at 29.3 months. The prolonged pre-development period led to higher costs due to inflation, additional interest on pre-development and acquisition loans, and increased staffing costs. Delays in receiving funding also necessitated bridge financing, with its additional transaction and carrying costs. A for-profit project able to secure funding more readily from a smaller number of sources might

7. While this study did not collect information on the number of funding sources used by for-profit developers of affordable housing, the currently available system itself may drive the number of sources that must be assembled. In a recent HDR-Institute for Professional Education and Development conference, the exemplary project reviewed was a conversion of a 303-unit, FHA-insured Section 236 rental property by a for-profit developer who kept the HUD financing in place but had to assemble 10 additional sources of financing for the project. (See Housing and Development Reporter, *Current Developments*, November 9, 1992, p. 509.)

8. This was the figure cited for duration of construction period for unsubsidized 221(d)(4) projects, which is the category among the HUD Multifamily sample which most resembled our study's projects. The Multifamily report contained no estimates for pre-development period for this category of projects, however. *The Costs of HUD Multifamily Housing Programs*. Urban Systems Research & Engineering, Inc., May 1982, p. 4-37.

be expected to have a shorter and less costly pre-development period and, depending on the interest charged for such financing, might realize lower overall development costs.⁹

Land/acquisition costs: The majority of the nonprofits in our study were given property at a discount or in some other way received a subsidy in connection with acquisition. While for-profit developers also may be given discounts by public agencies wanting to encourage development of housing in particular neighborhoods, it seems reasonable to assume that these funding sources are more reluctant to extend such assistance for less distressed development, and particularly to for-profit developers. Some of the nonprofits in our study also obtained properties that no one else wanted to purchase. In these locations, there was virtually no market and the nonprofit saw itself as taking the risk because of (and on behalf of) the neighborhood. Presumably a for-profit could acquire these properties at a comparable price, but might be more hesitant to undertake such risky projects unless there was a higher than normal level of financial incentives or guarantees, which might itself lead to added costs.

Financing costs: We have already noted the costs associated with the delays inherent in assembling a development financing package involving an average of 7.8 funding sources. In addition, for many of these sources, the nonprofits experienced multiple closings (with concomitant added transaction and settlement charges) at the acquisition, construction, and permanent financing stages of the development. A for-profit (or a nonprofit) with a more consolidated financing package might realize comparative savings relative to such transaction expenses.

On the other hand, all of the nonprofit projects in the study received below market interest rates (BMIRs), primarily from public sources of funding. Although these funding sources might also be willing to provide BMIR loans to for-profit developers for similar affordable housing efforts (perhaps with a shallower subsidy), the 1987 Tax Credit study indicated that only 51.5 percent of the sampled (primarily for-profit) projects involved such

9. Two points are worth noting here. First, any cost savings that we speculate might be available to a for-profit developer from a more simplified financing process theoretically could also be realized by a non-profit sponsor not required to obtain funding from so many widespread sources. Second, one of the Chicago projects in our study was a joint venture LITHC project between a non-profit and a very involved for-profit developer. The overall development period for this project was shorter than the sample average (28 months versus 41 months), but by no means the shortest duration. Two other non-profit projects completed development in less than 20 months, and four in less than 27 months. In addition, this project was the *most* expensive of the three Chicago projects in terms of normalized cost per unit. Thus, the involvement of a for-profit developer did not result in lower costs in this case.

below-market loans.¹⁰ While an estimate of the value of these interest subsidies has been included in the study's calculation of full development costs for the 15 nonprofit projects, and while they represent a real cost to taxpayers to the extent that they originate from public sources, the availability of these loans should have the effect of reducing the out-of-pocket financing costs of nonprofits relative to many for-profits.

Construction costs: For the new construction nonprofit projects, the previous section (5.2) provided a preliminary analysis of per-square-foot costs compared with the averages in R.S. Means and noted possible reasons for deviation. The variation is what one might expect for a similar sample of for-profit projects unless the for-profit developers had a special expertise in these areas which permitted exceptional economies.

A for-profit developer, however, might be able to avoid some of the factors that contribute to higher costs. For example, 14 of the 15 nonprofit projects in our study included Federal grants or loans, which trigger Davis-Bacon prevailing wages, whereas only approximately 40 percent of the projects in the ICF Tax Credit study utilized such funding.¹¹ Likewise, if a for-profit did not require a local subsidy for the development, it might be able to avoid some of the special requirements which come with such local assistance, such as for establishing job training/apprenticeship opportunities as part of the development effort. By avoiding these cost-augmenting requirements, however, the for-profit developer may also be restricting the range of public benefits that might be realized from the project.

Developer's overhead/staffing and fees: We have previously noted that the largely for-profit projects in the Tax Credit study averaged 9.5 percent in developer's overhead/fee overall, and 13.9 percent for projects "reporting a developer's fee".¹² For these combined cost categories the nonprofit projects in our study exhibited reported developer's overhead/fees equal to 10.7 percent of the average full development cost, although they only realized in cash the equivalent of 3.9 percent of development cost. Therefore, it appears that this cost category may be less expensive in nonprofit projects, although whether the actual overhead and fees received

10. *Evaluation of the Low Income Housing Tax Credit*. p.5-6.

11. *Ibid*, p. 5-6.

12. *Ibid*, p. 4-8.

by the nonprofit sponsors are sufficient to optimize the development capacity of the organizations is in question.

Other benefits: While the nonprofit sponsors did not provide many services exclusively to their tenants, the residents did seem to benefit from access to the array of community-wide services offered by these organizations. These services were funded through grants, the general revenue of the nonprofit, or the operating budget of the completed development, and therefore there are unlikely to be any development cost distinction between nonprofits and for-profits regarding service provision for similar projects.

In addition to the comparison between nonprofit and for-profit costs, a separate issue is how development costs for affordable housing compare with unassisted market values for that product in the particular neighborhood. While this subject also went beyond the scope of the study, we examined the methodological issues that would be involved in obtaining brokers' estimates for the value of the units on the open market, or appraisals for comparable unassisted, market projects in the same neighborhood. The difficulties which this approach are as follows:

- Given the long term disinvestment that has occurred in many of the neighborhoods in which the projects are located, it may not be possible to identify a comparable contemporary unassisted market project;
- The basis of a broker's estimate (or even an appraisal) may not take into account the breadth of non-cash contributions, pre-development, lease-up or other cost factors upon which our figures for the nonprofit projects were constructed; and,
- Simply because of the current distressed nature of such neighborhoods, the market value of an affordable housing project (whether nonprofit or for-profit) is likely to be less than the resources required to create it. In addition to the creation of affordable housing, however, a major objective of many of these nonprofit projects is to make a substantial investment in these neighborhoods to try to revitalize and restore some confidence in the local market. The dual commitment of the nonprofits to the well-being of the overall community as well as the economics of the particular project may well be something that sets them apart from for-profit developers, and certainly would complicate any analysis of comparative costs.

Chapter 7 contains recommendations for addressing some of these issues in further research. But first, we will examine the experience of the 15 nonprofit projects in terms of the rent and affordability levels realized.

CHAPTER 6

RENTS AND AFFORDABILITY

The fifteen projects included in this study exhibited a variety of methods for creating affordable housing. Significantly, 12 of 15 used Low Income Housing Tax Credits to raise project equity, with the requirement that qualifying units be affordable to households with incomes under 60 percent of the area median.¹ (Rents for these units are limited to 30 percent of 60 percent of median income for the appropriate family size.) Grants, below-market loans, and deferred-payment loans were also used to reduce out-of-pocket development costs and therefore rents. Although tenants in some of the projects also benefitted from rental assistance subsidies (Section 8, state, or local), analysis of the case studies focused on the affordability created by the development-period subsidies, also referred to as capital subsidies.

6.1 Approach to Rent Analysis

Data on rents and affordability in the fifteen developments were examined in a variety of ways. In our analysis, "initial rent" refers to the original monthly operating budget for the project, reflecting all the capital subsidies (including favorable financing terms) but excluding any operational subsidies (rental assistance) that the project may receive to further reduce effective tenant rents or payments. Initial rent was calculated as a weighted average by unit size.

In order to be able to examine what the affordable units would have cost without the subsidies present, and to compare experiences among projects, several other rent-based indicators were derived. "Initial standardized unit rent" was calculated by multiplying the "initial rent" by the number of units, and then dividing the result by the number of standardized 2BR units. "Initial standardized unit rent as a percentage of median income" was determined

1. The legislation allows a choice of a minimum set-aside of 20 percent of the project's units for tenants with annual incomes of 50 percent or less of area median gross income or, alternatively, 40 percent of the units for tenants with incomes under 60 percent of median. Because the amount of the annual tax credit is proportional to the number of low-income units, most sponsors set aside all units, so the 60 percent of median requirement is the most common.

by dividing the standard unit rent by one-twelfth of the median income for a family of four for the relevant MSA and time period.²

A "rent affordability level" has been developed to show the level of household income, as a percentage of median income, that would be sufficient to ensure the initial rent was affordable (no more than 30 percent of income) without further operating subsidies. (Note that we compared contract rents to 30 percent of income, while the usual percentage is based on gross rents, including any tenant and paid utilities.) Another measure, the "required rent if fully financed at market rates," examines the impact of the project's combined development period subsidies and contributions. It is a calculation of how much higher the rents would have been if these subsidies and contributions had not been available.

6.2 Observations on Rent Levels and Affordability

Exhibit 6.1 presents information on project rents and the affordability of the case study units. It shows that average initial rents varied substantially among projects, ranging from just over \$200 per month in Kansas City to well over \$1,000 per month in Boston. The exhibit also shows initial rents as a percentage of the FMR and as a percentage of median area income. Two of the Boston properties (Washington/Columbia - Granite and La Concha) use project-based Section 8 extensively and had their gross rents based on 144 percent of the FMR. (The percentage shown in the exhibit is somewhat lower, since these are contract rents and do not include utilities.) With the exception of Langham Court (a mixed-income coop), all of the other case study projects had rents well below the FMRs for their areas. Six of the remaining 12 projects rented for less than 60 percent of the FMR and six rented for amounts between 60 and 80 percent of the FMR.

Except for the Boston properties, the rents achieved through development period subsidies are well below the 30-percent-of-income standard for a median-income household and thus are able to reach households at a much lower income level (third column in Exhibit 6.1). The affordability level presented in the next column of Exhibit 6.1 shows the household income

2. For this analysis, calculations were based on a family of four living in a standard 2BR unit. Because of variation in family composition and bedroom requirements, an equally compelling case could be made for framing the analysis in the context of a family of 3 (or 3.5) persons in a 2BR unit, or a family of four in a 3BR unit. If the former framework were used, for example, the figures for the rents as a percentage of FMR and median income would increase, and the values for the overall affordability of the projects would be reduced.

Exhibit 6.1
Affordability of Project Rents

Site	Initial Monthly Rent		Standardized Rent as a Percent of Median ^c	Affordability Level ^d	Percent Increase in Initial Rent absent Capital Subsidies ^e	Monthly Tenant Payment	Percent Increase in Tenant Payment absent Capital Subsidies or Rental Assistance ^f
	Amount	Percent of FMR ^b					
<i>Boston, MA</i>							
Langham	\$878 ^g	103.9%	22.8%	75.9%	154.7%	\$878	154.7%
Washington/Columbia	\$1,025	131.8%	32.8%	109.5%	15.0%	\$338	248.4%
LaConcha	\$1,103	122.1%	28.9%	96.3%	43.7%	\$165	857.9%
<i>Washington, D.C.</i>							
Dorsey Moore	\$561	72.3%	8.6%	28.8%	54.3%	\$444	95.0%
Florian	\$486	71.5%	14.6%	48.8%	22.3%	\$486	22.3%
Renaissance	\$539	80.3%	12.2%	40.8%	19.5%	\$527	22.2%
<i>Chicago, IL</i>							
Washington Blvd.	\$443	59.7%	8.6%	28.7%	51.2%	\$338	98.2%
Plaza on the Park II	\$526	79.2%	13.7%	45.6%	38.1%	\$372	95.2%
Borinquen	\$411	54.1%	8.1%	27.0%	86.0%	\$177	332.0%
<i>Kansas City, MO</i>							
Blue Hills	\$207	46.9%	12.1%	40.5%	101.3%	\$207	101.3%
Signal Hill	\$381	79.7%	13.3%	44.4%	77.9%	\$381	77.9%
Quality Heights	\$243	47.6%	14.4%	48.0%	162.5%	\$243	162.5%
<i>San Francisco, CA</i>							
Baywood	\$495	53.9%	11.9%	39.7%	48.9%	\$480	53.5%
Maria Alicia	\$667	63.2%	17.1%	57.0%	178.6%	\$540	244.1%
Frank Mar	\$439	47.4%	15.7%	52.4%	92.4%	\$439	92.4%

- a. Initial Rent is the average amount per unit that must be supported by project income.
- b. Initial Rent as a percentage of Section 8 Existing Housing FMR applicable to the area and year of completion.
- c. Initial Rent as a percentage of median income in the area and year of completion.
- d. Income level such that Initial Rent is 30 percent of income as a percentage of median income.
- e. Fully-financed rent (no capital subsidies) as a percentage of Initial Rent minus 100%; retains rental assistance payments (RAP) in calculations.
- f. Fully-financed rent as a percentage of average tenant payment minus 100%; excludes rental assistance payments from calculations.
- g. Langham Court initial rent reflects operating subsidy imbedded in the state development assistance program.

level (expressed as a percentage of area median) that would be needed to afford the average unit if the household spent 30 percent of its income on contract rent, not adjusted for tenant-paid utilities. Again with the exception of the Boston properties, average rents are in all cases affordable (before any rental subsidies) to households under 60 percent of median (the LIHTC threshold) and, in 10 of the 15 sites, to households under 50 percent of median (very low-income as defined by Section 8). On this affordability-level indicator, the projects in Washington, D.C., with no use of Tax Credits, achieved project affordability comparable to the projects in the other metropolitan areas (which all used the Tax Credits).

6.3 The Impact of Subsidies on Rent Levels

The final columns of Exhibit 6.1 compare the average rents actually charged for the units with rents that the sponsors *would have needed to charge* if the project's full development cost (less investor's equity) had to be financed at market rates. In making this calculation, grants, donations, and the value of non-cash contributions are all included in the amount to be financed; only investor's equity is excluded. Debt service is calculated based on a constant-payment, self-amortizing loan with a term of 30 years and an interest rate of 10 percent. This monthly debt service is added to the monthly amount for operating costs (including reserve contributions) drawn from the project pro forma or the first year's operating statement. While the result does not reflect a true market rent (since the market might not support it), it does reflect what the true cost of operating the specific project would be, under the assumptions given. The comparison is intended to highlight the extent to which project capital subsidies have been used to reduce rents. It has the important advantage of simultaneously capturing the impacts of all the different types of development-period subsidies (e.g., up-front grants versus low-interest loans).

As shown in the exhibit, rents in most projects would have to be considerably higher in the absence of project capital subsidies. The difference is quite dramatic in some cases, such as Langham Court and Maria Alicia, where initial rents would have to be 155 and 179 percent higher, respectively, to operate the project in the absence of capital subsidies (including below market interest rates). Overall, rent increases of 50 percent or more would be required in nine of the 15 projects *in the absence of grants, donations, and favorable financing*; increases of more than 100 percent would be required to support operations at four of the 15 sites. Such

increases would render the units unaffordable to most low income households, without the infusion of some other form of tenant subsidy.

For those projects that have units supported with Section 8 or other rental subsidies, we have made a second comparison, this time comparing the average tenant payment (by definition an affordable rent) with the calculated rent based on full market financing. In addition to the capital subsidies, some form of rental subsidy was present in nine of the 15 projects. In most of these, the number of units receiving assistance was modest. More highly assisted projects included Washington/Columbia - Granite and La Concha in Boston (both 100 percent project-based Section 8) and Borinquen in Chicago (where 92 percent of the units receive Section 8 or city rental assistance). In the Boston cases, because of the high contract rents, this subsidy was necessary to achieve affordability for low income households; in the other cases, the rental assistance was used to house an even lower income population.

When actual tenant payments reflecting subsidies from all sources, both capital and rental, are compared with required rents based on no subsidies in any form, the difference between affordable rents and required rents is even more substantial. The most dramatic case is La Concha, where required rents would exceed what tenants are currently deemed capable of paying by 858 percent. All but two projects would require increases of over 50 percent, and eight would require increases of 100 percent or more.

With the exception of the Boston projects, the other 12 projects in this study were able to deliver units with initial rents (reflecting capital subsidies only) well under the local FMR. The result is that with development subsidies alone the majority of these properties are affordable to households under 50 percent of median income, and 3 of these projects are affordable to households under 30 percent of median income. Project-based rental assistance produced even lower, and more affordable, rents for 9 of the 15 projects.

CHAPTER 7

AREAS FOR ADDITIONAL RESEARCH

This study was designed as preliminary research on the feasibility of collecting complete cost and funding data on nonprofit affordable housing projects. It also serves as a basis for formulating conjectures about patterns of development among nonprofit sponsors. A cost and funding framework was developed that has proven to be an effective data collection and analysis tool in a variety of project and organizational settings. In addition, our observations from the 15 nonprofit projects have generated a number of hypotheses about characteristics of nonprofit development. However, the limits of the scope of the study, and particularly the inability to generalize in a statistically valid manner from the small non-random sample of nonprofit projects, leave many of the most intriguing questions unanswered. In this chapter, we outline several areas of additional research to build upon the results of this exploratory study and answer these questions. These research areas include:

- comparisons of the nonprofit development experience with for-profit development patterns, market values, and housing vouchers;
- other nonprofit development cost and funding issues;
- refinements to the analysis methodology;
- development of a national database on nonprofit housing development sponsors and projects; and,
- examination of operating revenues and expenses.

7.1 Nonprofit/For-Profit, Market Value, and Voucher Comparisons

Based on the discussion in Chapter 5 (Section 5.4) on methodological challenges in performing statistically valid *nonprofit/for-profit comparisons*, there appear to be three main approaches to further research in this area. One avenue would be to obtain more information on individual cost elements in the 15 nonprofit projects (such as the precise timing of phases in the development process, the effort involved in obtaining financing, and the physical specifications of projects), and to try to quantify possible cost differences from for-profit

references. Cost estimates for new construction would be derived from R.S. Means's square foot costs manual, and for rehabilitation from Means's repairs and remodeling manual. In order to develop precise cost build-ups for the projects, construction specifications (including details about materials used and systems installed during construction and site work) would need to be secured. Ideally, a trained cost estimator would then develop the cost build-ups.¹

A second avenue would be to select a group of paired for-profit projects that are best matches for our 15 nonprofit projects and do the same data collection and analysis on them. The fact that our study found relatively few pure (non-Tax Credit) nonprofit projects indicates that the predominant mode for providing affordable housing appears to be the LIHTC, whether provided by a for-profit or a nonprofit. Consequently, Tax Credit projects might present the best possibility of finding purely for-profit projects that are appropriate matches for our 15 nonprofit projects. In particular, it would be useful to examine projects in the two MSAs in our nonprofit study with the highest costs. Accordingly, we could seek development cost information maintained by the Massachusetts Housing Finance Agency and the Massachusetts Tax Credit allocation agency (the Executive Office of Communities and Development), and similar figures from the California agencies.

The third avenue would be to develop a sampling frame of both nonprofit and for-profit developments and draw a sufficiently large sample of each to allow statistically valid comparisons of the two groups (about 135 of each to distinguish a ten percent difference at 90 percent confidence). The task of deriving a statistically representative sample would require the development of a national database on nonprofit sponsors and projects which is described later in this chapter.

Further research could also examine the **value of the units on the unassisted open market**. The research could employ either a formal appraisal or estimates from three brokers. One objective of this investigation would be to identify any "premium" over unassisted market value that is paid for developing projects where unassisted private development is not likely to occur and to compare this premium with any neighborhood-wide benefits generated (e.g., stabilization or renewal, and so on) by the project.

1. The study of multifamily rental housing conducted recently by Abt Associates for HUD used this approach, which typically required a 1½ day site visit to each project by a trained inspector.

Further research evaluating the costs of nonprofit housing development could also involve a comparison with other approaches to the provision of affordable housing. For example, it would be interesting to explore how the nonprofit projects' normalized subsidies over a 30- or 40-year period compared with the amounts that would be required to fund **housing vouchers** for the same number of equivalent units over the same time period. For a thorough analysis for our 15 nonprofit projects, we would also need to collect information on the operating subsidies these projects expect to receive and information on housing that would be available to holders of housing vouchers. At the end of this chapter is a more detailed discussion of research to capture information on the nonprofits' operating revenues and costs.

7.2 Other Nonprofit Development Cost and Funding Issues

From the case studies, a number of other nonprofit development cost and funding issues have emerged that deserve future investigation, either through additional data collection and analysis at the fifteen sites or through research involving a larger sample of projects. These issues include:

1) Nature and cost of delays: The nonprofit projects, in large part because of their dependence on multiple funding sources for financing, experienced frequent and often lengthy delays in the development process. It seems reasonable to postulate that the delays experienced by nonprofit development efforts might be a significant factor accounting for differences in costs that may exist between nonprofit and for-profit development scenarios. Therefore, it would be worthwhile to complete a more detailed analysis of the frequency, source, and duration of such delays, and to derive careful estimates of the cost increments attributable to such delays, particularly those associated with multiple layers of bridge financing.

2) Transaction, legal, and other administrative costs: Related to (1), although it can be viewed as a complete research topic in itself, is the issue of transaction/legal costs associated with multiple funding sources or complicated financing/ownership arrangements. Particularly in some of the Tax Credit projects, the financing approaches required the establishment of numerous subsidiaries, partnerships, and other legal entities, with extensive transfer of assets and liabilities among them. While perhaps justified as a way to maximize funding, these approaches generated additional legal, administrative and reserve requirements, adding to per unit development costs, or at least reducing the net amount of Tax Credit investor payments

applied to other soft and hard costs of development. It would be illuminating to complete a more detailed analysis of these approaches, to try to determine precisely how much additional funding these approaches generated for the projects and how much of this additional funding was absorbed in additional transaction, legal, and administrative costs. Perhaps more important, this research would help us to ascertain what accounts for the variation in the soft costs between and among the various financing mechanisms utilized by the nonprofits. As noted earlier in this report, given the reasonable costs achieved by the nonprofits in three of the MSAs examined, this variance in the costs between nonprofit projects may be as significant as any cost differences which might exist between nonprofit and for-profit efforts.

7.3 Research on Refinements to the Analysis Methodology

Although some modest revisions have been recommended for the cost and funding framework/data collection instrument (see Appendix C), the experience in the fifteen case studies has demonstrated the basic capacity of the instrument to capture comprehensive data for a range of development scenarios and organizational settings. However, the research has also pointed out areas where future refinements could be made in the methods for valuing non-cash contributions and in the approach to normalizing the collected data to facilitate cross-project comparisons. These areas include the six topics discussed below.

1) Additional research on comparable for-profit interest rates and loan conditions for improved estimates of the value of interest subsidies: In Appendix B, it is noted that the calculation of the value of interest subsidies was based on an assumption of a conventional rate of ten percent and may have mis-estimated this non-cash contribution in certain circumstances. To acquire a better sense of the adequacy of this assumption about prevailing rates and/or to develop an improved methodology for calculating the benefit accruing from interest subsidies, a survey should be conducted of a sample of financial institutions in the five selected MSAs, with the objective of determining whether the terms provided to the projects studied were indeed "below market." This survey should focus on capturing comprehensive information on the underwriting requirements, financing fees, interest rates, and loan conditions utilized by those sampled institutions for various types of housing development loans for each of the years in the period of 1987 to 1991. The range of debt instruments examined should include acquisition, construction, bridge, and permanent loans, letters of credit, and combinations thereof. Housing

types should include new construction and rehabilitation projects, both by for-profits and nonprofits, for rental, cooperative, or homeownership purposes. If possible, any variation by neighborhood type should be ascertained.

From the results of this survey, the extent of variation in interest rates and loan conditions among institutions, loan applicants, project and housing types, and time periods would be determined. For each MSA, in addition to identifying the range of typical interest rates for categories of projects, an attempt also would be made to identify the specific comparable for-profit interest rate for the individual nonprofit projects examined in that locality's case studies. The analysis of the survey results would provide insight as to: (a) the relative precision of the interest subsidy estimates based on the simple "ten percent" approach; (b) the appropriateness and feasibility of completing exact for-profit comparisons for specific projects; and (c) the extent of the sensitivity of the interest subsidy calculation to various factors such as time period, project type, and prior experience of loan applicant. Based upon these findings, appropriate refinement in the interest subsidy calculation methodology would be made.

2) Standard rates for developer's overhead and fees: Although a minimum value of six percent of net development costs was established for the combination of developer's overhead/staff expenses and fees in the case studies, the actual rates observed among the case studies varied considerably, as did the types of costs covered by the respective organizations' allocations for "overhead and developer's fee." In order to test the adequacy of the six percent estimate, or to identify a more appropriate figure, additional research should be conducted into the rates for developer's overhead and fees actually experienced by for-profit and nonprofit developers, the costs covered under these line items, and other budgetary mechanisms employed to recoup staff and organizational expenses. For example, in some of the cases, it appears that the budgeted figure for developer's overhead and fee may have been increased in order to establish a larger basis for Tax Credits, or as a mechanism to create indebtedness of the project to the nonprofit to strengthen the sponsor's position relative to the limited partners at the end of the partnership, or as a bookkeeping device to lower the loan to value ratio. In such instances, it would be desirable to have sufficient data to be able to make adjustments in the developer's overhead/fees for such factors, in order to develop a more realistic or comparable figure.

The identification of a standard rate for developer's overhead and fee is important because, as seen in the case studies, many nonprofits do not keep a formal tally of their staff and organizational expenses associated with the development project, and therefore a value must be imputed. An accurate estimate of developer's overhead and fee is critical for giving an indication of the extent to which a nonprofit either must subsidize development from its general operating revenue sources, or conversely can build up equity for subsequent development projects. The ability of nonprofits to actually realize a reasonable developer's fee and overhead reimbursement out of the development financing itself is therefore likely to be a key factor in their housing production capacity.

3) Refinements in how syndication proceeds and expenses are treated in the calculation of the "full development costs" of the nonprofit projects: Except for Tax Credit syndication proceeds, the calculations regarding project finances in the case studies basically were limited to those sources and uses actually realized during the development period. However, because Tax Credit syndication proceeds are seen as equity contributions for development (even though the syndication installments may span a period which exceeds the duration of development by several years), it was felt that the total syndication proceeds generated by a project also should be credited to the development period. To achieve reconciliation between sources and uses, this also meant that the syndication-related costs (as well as all other uses to which the proceeds were put) were included in the calculation of development expenses. The effect of this approach was to increase the full apparent costs of the projects -- in some cases considerably -- and to attribute expenses that will be incurred over an extended number of years, such as bridge loan interest and investor servicing, as a development expense.

It would be worthwhile to re-visit this issue carefully to see if it is possible to construct a financial build-up for the projects which reflects a more conventional view of what is included in "development costs", without excluding the equity generated by the Tax Credits from the analysis. This would require a detailed reexamination of the relevant case studies, to determine alternate methods for distinguishing among the various syndication costs and uses. Sensitivity tests should then be applied in order to assess the impact of these alternate methods on the Tax Credit equity attributed to development, and on the estimates of full development costs.

4) Fine-tuning of the normalization methodology: In the case studies, the projects' costs were normalized for time and location, by applying the relevant R.S. Means construction cost indices to the calculated full development cost for each project. However, the R.S. Means indices are based on labor and materials for direct construction costs only, plus an allowance for general conditions and design costs, rather than on the complete range of expense items reflected in our calculation of "full development cost". Therefore, to the extent that cost items *not* covered in the R.S. Means indices have less variation than the cost items that *are* covered in the R. S. Means indices, our application of the Means indices to this total figure may have tended to overstate the effects of time and location.

Additional refinements to the normalization methodology would entail several steps. First, the individual elements making up the "construction" cost category in the framework would be reviewed, to determine if there are any expenses that have been included under this category in the case studies that go beyond the types of costs on which the Means indices are based. These items would be broken out of the "construction" category, and for such items and the other non-construction/design costs, sources in each of the MSAs would be contacted to obtain estimates of standard rates over time. Variations among locations and over time for these cost elements would be compared to the Means indices for these locations and periods. Where the Means indices provided a reasonable estimate of the observed variations, these cost elements would continue to be normalized utilizing the relevant Means index. Where use of the Means indices did not reduce variations to zero, alternate indices for use in the normalization calculations would be sought from national and regional sources. (This activity would probably dovetail with the research proposed above on local interest rates and developer's fees.)

5) Handbook on analysis methodology: Once the various refinements to the analysis methodology were finalized, it would make sense to develop -- as a companion piece to the data collection instrument/cost and funding framework and instructions -- a comprehensive handbook detailing standard estimation, adjustment, and normalization techniques that can be utilized for the range of organizational and development scenarios encountered in the fifteen case studies.

7.4 Development of a National Database on Nonprofit Housing Development Sponsors and Projects

One factor that complicated the site selection process for this study and would affect future studies is the lack of a national database on nonprofit sponsors and projects. Without such

a database, it was not possible to construct a representative sample, or even to determine with some assurance that the selected cases represented fairly typical development scenarios from a national perspective.

The generic cost and funding framework developed as part of this study can be applied to a variety of organizational settings, to generate a comprehensive picture of nonprofit development processes and finances. However, the overall utility of this analytic tool is still dependent on the ability to apply it to a national sample. It is only possible to derive statistically meaningful conclusions about nonprofit housing development if there is a comprehensive national database on such organizations and their projects. The development of such a database, therefore, seems to be a logical next step to follow this research.

To develop such a database, a reasonable place to start would be to compile existing lists of nonprofit organizations undertaking housing development, from national sources such as HUD's list of CHDOs in the HOME Program C/MI system, or the mailing lists of groups such as the National Council for Community Economic Development (NCCED), the National Council of State Housing Agencies (NCSHA), the Local Initiative Support Corporation, and the Enterprise Foundation. These could be supplemented by a survey to entities such as state Housing Finance Agencies and CDBG Entitlement grantees, asking them to identify nonprofits in their respective areas that are engaged in housing development. Such a database could be of considerable use to HUD in other areas, such as estimation of nonprofit affordable housing development capacity nation-wide.

Once an unduplicated nonprofit list was established, a basic survey could be mailed to each organization, seeking information on their overall development experience and on each of their projects, with the latter focusing on the year that the project was constructed, development type, building type, target population, number of units, sponsor/ownership structure, sources of development expertise, development funding sources, operating subsidy sources, and sponsor's estimate of full development cost.

The results of this survey could then be analyzed for any **patterns among the organizations** (numbers of nonprofit developers per region; years of experience; total numbers of projects/units completed; types of housing built; production rates over time; sources of expertise and use of "mentors") or **patterns among projects** (size of projects; regionally or

MSA-based development scenarios; typical configurations of funding sources by building type, development type, and/or target population; per unit cost estimates).

The database could also be utilized to draw a representative sample of projects in which **the data collection instrument/cost and funding framework** could be applied to capture a more complete and statistically reliable picture of costs, funding sources, contributions, length of development period, and problems. The database could also be used to aid other research efforts designed to test hypotheses such as those generated from this study.

7.5 Examination of Operating Revenues/Costs

In focusing on the development period, this study has examined only a portion of the overall finances associated with the fifteen affordable housing projects. The other half of the picture relates to the operating revenues and costs being experienced by these projects after occupancy. Some design trade-offs may be such that lower development costs force higher operating costs (in maintenance and repairs) and conversely. Also, one would expect capitalizing of a project with operating reserves would lead to lower demands on operating funds. Moreover, there were indications in some of the cases that the operating subsidies being received were more critical to the "affordability" and continuing financial viability of these projects than the development period subsidies which were observed. Therefore, to achieve a complete overview of the costs of this affordable housing, including the sources and extent of subsidy required, it is necessary to conduct a more thorough analysis of the operating experience of the fifteen projects. This supplementary research would examine sources of operating revenue, costs of operations, and continuing viability of the projects.

1) Sources of revenue: The research would document the various sources and amounts of revenue received. For example, for each project the percentage of rent revenue received from tenants would be determined, as well as identification of the amounts contributed by different income groups within the developments. Also examined would be the extent to which some of the projects realize income from sources unrelated to the residential space, such as from commercial space, services, or investments. In those projects where rental assistance (either project-based or tenant-based) was a revenue source, its role would be analyzed. The impact of any other operating subsidies received would be similarly evaluated. The extent to which a project might be applying "development period subsidies", such as syndication proceeds or

remaining balances from construction loans, or funded reserves toward on-going operations would also be analyzed. Vacancy and unit turn-over rates, and how they are affecting the project's revenue stream, would also be assessed. For any adjustments in the rent levels that have occurred, the research would seek to identify the reasons for the rent changes, as well as the amounts and percentages of the adjustments. The research would also attempt to identify how these changes have affected turn-over/vacancy rates, affordability levels, and demographics of the development's tenant population.

2) Costs of operations: Total costs, per unit amounts, and percentages associated with major expense categories (such as debt service, administration/management, utilities, maintenance, taxes/insurance, security, and tenant services) would be determined. These figures would be compared to industry standards utilizing the conventional apartment survey of the Institute of Real Estate Management, which could also be used to "normalize" the data from the individual projects. An effort would be made to assess the relationship between development costs and operating costs in the various projects, such as whether shortfalls in the development budget made it necessary that certain repairs be addressed in the operating budget (or conversely, that above normal construction standards in the development phase have resulted in saving money in operations).

3) Continuing financial viability of the projects: The additional research would examine whether the projects are currently operating with a positive cash flow, and how the cash flow to date compares to what had been predicted for this time period. Explanation would be sought for any variances from predicted amounts or percentages. In particular, attention would be directed at what is happening in the local market, and how successful the nonprofit sponsors had been in predicting current market conditions when the feasibility analysis for the project was performed. The research would also assess the extent to which each project's financial viability is dependent on time-limited subsidies (such as syndication proceeds, rental assistance contracts). An analysis would be made of whether each project has adequate reserves, and whether it has been able to add to those reserves or been forced to use them to cover operating deficits. For Tax Credit projects, the research would seek to determine the plan for what will happen to the housing at the end of the limited partnerships.

These are only some of the possibilities for additional research suggested by the study. We feel that the study has taken a significant step toward addressing the lack of systematic

information on the experience of nonprofits in developing affordable housing. The proposed areas for additional research would help us to refine and expand our understanding of the processes, resources, and costs associated with creating and maintaining this housing.

APPENDIX A

SITE SELECTION

This Appendix describes the rationale for selecting metropolitan statistical areas (MSAs) and individual nonprofit affordable housing projects for inclusion in the study.

1.0 Selection of the Case Study Sites

The projects studied were distributed among five Metropolitan Statistical Areas (MSAs), with three projects in each. Because each of the developments (or projects) is the subject of a case study (provided as Appendix E), they are sometimes referred to as case studies. Although we had hoped to focus on "typical" nonprofit housing developments, no national database currently exists from which one could determine in a statistically reliable way what constituted a typical nonprofit project. The National Congress for Community Economic Development (NCCED) conducted national surveys in 1988 and 1991 of community-based organizations that include some questions on the organizations' housing development experience, but the surveys do not collect sufficient detail at the individual project level to derive a statistical profile of the developments. Lacking such a resource, it was decided that there would be certain attributes which all selected projects would have in common ("threshold criteria") and other attributes for which some variation would be sought among the cases. The following sections describe the chosen attributes and the rationale for each.

Although an effort was made to ensure a good distribution of cases relative to a specific group of attributes, the projects selected are by no means statistically representative of nonprofit projects. This small, non-random sample of case studies therefore will not allow generalizations about overall nonprofit behavior, nor about causal relationships of attributes within the sample. The principal utility of these case studies is as a test of the application of the cost and funding framework.

1.1 Threshold Criteria

The attributes that all fifteen case studies had in common were:

- **All projects were developed by a nonprofit organization.** In some cases the nonprofit acted in partnership with a for-profit, or through a for-profit subsidiary.

Since Tax Credit syndication is a common financing strategy for low-income affordable housing, it was not surprising to encounter such partnerships or subsidiary relationships. In instances where the project also involved a for-profit, however, the case was only selected for inclusion in the sample if it was clear that the nonprofit was the "driving force" in the project.

- **All completed projects were privately held (by the nonprofit or a cooperative).** Projects where the housing was developed on a turn-key relationship for, or subsequently sold to, a public housing authority were not considered for inclusion in the sample.
- **In each project, at least 25 percent of the units were allocated for lower-income households (<80 percent of median household income for the area).** This percentage threshold allowed the examination of mixed-income projects, where market rate units can be used as an internal subsidy mechanism to fund the lower-income units, while still ensuring that the development of affordable housing was a central purpose of the project.
- **All the projects involved family housing.** This focus eliminated a significant part of the universe of nonprofit affordable housing from the scope of the study. Yet, given the limited number of case studies to be undertaken in this task order, it was felt that the special design requirements of handicapped, elderly, and SRO housing would complicate the ability to develop preliminary estimates of typical development costs for nonprofit projects.

All but one of the selected projects involved **multi-family housing**. Although the inclusion of single-family projects in the sample was permitted, the recommended cases were all believed to be multi-family projects. However, during the site visits it was discovered that one of the projects described by the nonprofit sponsor as "multi-family townhouses" was actually a development of single family detached rental units.

- **The projects were all completed within the last three to four years.** This criterion was intended to help to ensure the availability of detailed project records. Most of the selected projects also had been occupied for at least 12 months; in all cases, they were occupied for a duration sufficient to allow the capture of data on lease-up and first-year operating revenues/expenses.
- **The projects all involved some form of Federal assistance.** The study assumed that some form of direct or indirect Federal assistance was likely to be the most common subsidy in nonprofit projects. Therefore, it was felt that the examination of "standard" forms of Federal assistance would more easily permit comparisons among projects, and enhance the policy relevance of the study's findings. The types of Federal assistance examined included CDBG, Rental Rehabilitation, Low Income Housing Tax Credits, Federally-insured mortgages, and Section 8 rent subsidies.

1.2 Primary Variables Controlled Among the Case Studies

Once the above threshold criteria were satisfied, prospective cases were examined to ensure a good distribution in the overall sample on three attributes specified by HUD. These other key variables were **sponsor's prior development experience** (novice or experienced), **development approach** (new construction versus rehabilitation), and **ownership type** (rental versus cooperative). These additional attributes had been identified through review of the literature and discussions with practitioners as the most potentially promising for identifying "typical" nonprofit project scenarios and for examining variations in development costs. These three variables, listed in order of HUD's view of their relative importance as attributes for examination, were applied in the site selection as follows:

- **Sponsor's development experience ("sophistication") -- novice versus experienced.** One attribute that was postulated to have an impact on the cost and timely completion of development was the level of development experience possessed by the nonprofit sponsor. To begin addressing this issue, for each MSA a project sponsored by a "novice" nonprofit developer or one of very limited experience was identified, in order to compare such projects with those undertaken by more seasoned organizations. Because the time frame from which potential projects could be selected was so limited, it was not possible to identify a "pure" novice for each MSA. However, for each nonprofit, detailed information was captured on prior development background, in order to be able to place each along a continuum of experience. Their financing, cost, and production performance could then be evaluated against their degree of experience.
- **Development experience -- new construction versus rehabilitation.** For each MSA, the study attempted to select projects that reflected what appeared from the reconnaissance to be the most typical nonprofit development pattern(s).
- **Ownership type -- rental versus cooperative.** Again, for each MSA, a mix of projects reflecting the apparent "typical" pattern(s) of development was selected.

1.3 Other Attributes of Interest

While the site selection did not formally control for **size of project** or **numbers of subsidies utilized per project**, an attempt was made to ensure that the cases selected were roughly representative of common scenarios found within the MSAs relative to these dimensions. The preferred size of individual projects in the site selection was 30 or more units—and ideally 50 or more units—in order to be dealing with some economies of scale. Avis Vidal's 1989 study of urban community development corporations had found that, for a sample of 97 CDCs that

function as housing developers, the median number of units produced per year was 21, while the mean was 30¹. The most recent (1991) NCCED survey of community-based development organizations revealed that such organizations produced an average of 78 units each over the three years of January 1988 through December 1990, or 26 units a year². However, these figures included both rehabilitation projects of varying scope and HUD 202 projects (which were excluded from our sample). Therefore, from the standpoint of this study, it was felt that these production figures might give a somewhat inflated view of the size of projects available as potential subjects for our study, and also that some "typical" nonprofit housing development scenarios for an MSA might involve projects of fewer than 30 units. This was in fact borne out by our MSA reconnaissance. Therefore, the 30-unit standard was used as a target rather than an absolute minimum.

In selecting the cases studies for each MSA, an attempt also was made to reflect "typical" numbers and configurations of subsidies (federal, state, and local), based on what the preliminary reconnaissance suggested were common financing approaches in the area.

1.4 MSA Reconnaissance and Selection

The case study selection process was actually a two-stage reconnaissance. First, MSAs with a significant level of nonprofit housing development activity were identified. Then, after a subset of MSAs that represented a diverse geographic sample were selected, the nonprofit organizations within these MSAs were canvassed to identify specific projects for possible inclusion as case study sites.

Among the five MSAs to be selected, it had been anticipated that Boston and Washington, D.C. would be included, due to the study team's familiarity with and contacts in these areas, the number of potential nonprofits and projects available, and travel cost considerations. For the identification of other potential MSAs, our reconnaissance strategy initially was based on anticipated access to a fairly comprehensive national database of nonprofit organizations performing housing development. However, the most promising available

1. Avis C. Vidal, *Community Economic Development Assessment: A National Study of Urban Community Development Corporations (Preliminary Findings)*, Community Development Research Center, New School for Social Research, New York, July 1989, p. IV-9.

2. National Congress for Community Economic Development, *Changing the Odds: The Achievements of Community-Based Development Corporations*, Washington, D.C., December 1991, p.4.

database, the 1991 NCCED national survey, did not have nonprofit organizations coded by MSA, and the data could only be secured aggregated by state.

The study team therefore conducted telephone reconnaissance in twelve cities, which were selected utilizing the information from this state-level database supplemented with a list of initial contacts provided by NCCED. The cities surveyed included Austin, Boston, Chicago, Dallas, Denver, Kansas City (Missouri), Miami, Minneapolis/St. Paul, San Francisco/Oakland, and Washington, D.C.. The general approach taken was first to contact a local entity (public agency, community development corporation [CDC], Local Initiatives Support Corporation office) that serves as a "clearinghouse" for information on local nonprofits and projects, and to ask for specific referrals. The precisely defined criteria for the nonprofit projects, along with the limitation that only projects completed in the last 3-4 years would be considered, made the identification of potential case study sites somewhat difficult. This was especially true for identifying projects developed by "novice" or less experienced nonprofit sponsors.

In addition, establishing contact with the nonprofits themselves to explore their interest in participating in the study proved to be problematic in many cases. This was most common for "cold contacts," but also occurred with many organizations where there was a specific referral from a local individual to cite as introduction. It was true of both large and small nonprofits; regardless of their size, it appeared that the nonprofits were "stretched thin" and had only a very limited capacity to concern themselves with anything beyond their current projects. Some otherwise promising organizations "self-selected" themselves out of consideration when it proved impossible to speak to the relevant staff after more than a dozen attempts. In several instances, once contact was made, it was determined that the project manager was no longer with the organization. (Frequent turnover of key staff seemed to be a problem with which many of the contacted nonprofits had to cope.) In one case, the nonprofit had just been through a time-consuming evaluation by a local funding group and therefore was reluctant to commit to another research effort.

Although the local "clearinghouses" were often concerned about placing additional burdens on the nonprofits and skeptical about their willingness to participate, once contact was established the overall response of the nonprofits to the invitation to serve as case study sites was quite positive. The vast majority of the nonprofit organizations contacted that had at least one project which met the selection criteria indicated a willingness to be part of the study.

The research design had established that, in general, a threshold of five to six local projects meeting the sample criteria would need to be identified in a metropolitan area for that area to potentially qualify as one of the five MSAs for the study. This was to ensure an adequate choice among local projects to identify three study projects per MSA, a better sense of local development scenarios, more capacity to construct a diverse group among the full sample of fifteen case studies, and the availability of alternates in case any nonprofit dropped out of the study. Based on the telephone reconnaissance with the individual nonprofits, lists of recommended projects were developed for six MSAs. Among these six, five MSAs were selected by HUD to provide for wide geographical representation: Boston, Washington, D.C., Chicago, Kansas City, and San Francisco/Oakland. Kansas City was selected over the other alternative MSA, Minneapolis/St. Paul, because the former was the sole metropolitan region among the recommended list that was not perceived to be a "high-cost" area.

The projects selected for study were:

- Boston: Langham Court Cooperative
Washington/Columbia
La Concha Apartments

- Washington: Dorsey R. Moore Cooperative
Florian Cooperative
Renaissance Apartments

- Chicago: Washington Blvd. Partnership
Plaza On The Park II
Borinquen Apartments

- Kansas City: Blue Hills Take Part Project I
Signal Hill Townhomes
Quality Heights Homes

- San Francisco: Baywood Apartments
Frank Mar Community Housing
Maria Alicia Apartments

APPENDIX B

DEVELOPMENT OF THE COST AND FUNDING FRAMEWORK

This Appendix describes the process that was followed in developing the framework for collecting and analyzing sources of funding and elements of costs for nonprofit affordable housing projects

1.0 Challenges of the Research

A number of factors shaped the design of the cost and funding framework. One issue that the design of the framework had to anticipate was the range of possible sources of funding and other resources that might assist a nonprofit's housing effort. Compared to their for-profit counterparts, nonprofit housing developers are known to have a much broader and potentially more complex range of funding sources. For debt financing, these can include not only conventional sources, such as banks and mortgage companies, but also public and private lending sources established specifically to finance low income housing. On the equity side, a nonprofit sponsor may have its own operating revenues or capital improvements funds to commit to a project. There may also be deposits from prospective purchasers or cooperative member fees/shares. In addition, there may be financial support through grants from public sources, foundations, or private corporations. The project also may be a recipient of syndication proceeds under the Low Income Housing Tax Credit mechanism (through a for-profit subsidiary or a joint venture).

In addition, unlike most for-profit developments, nonprofit projects often have a third major source of support, in the form of non-cash donations and "in-kind" contributions. These can range from the donation of land, structures, or infrastructure, to contributions of materials or labor. This component of development financing was of particular interest for several reasons. First, an accurate estimate of such donations and contributions will reveal not only the actual "comprehensive" cost of developing the affordable housing, but also the share of this cost covered by public sources and the total resources leveraged by Federal (and other public) assistance. An understanding of the role of these additional resources in nonprofit housing production also can help us to identify areas in which nonprofit development is limited by the lack of available donations or other contributions. Accordingly, the cost and funding framework

needed to account for a variety of financing mechanisms and to allow for complete and consistent estimation of the value of all types of subsidies and contributions.

We assumed that nonprofit sponsors, due to limited staffing capacity, probably would not maintain cost records much beyond those required by funding sources, and would not be concerned about the value of contributions except where tax laws or matching requirements mandated the collection of such information. Accordingly, we anticipated that the available records could not be counted on to reveal the full value of contributed labor, materials, land, or structures. We also anticipated that there might be limited data available on the value of certain subsidies, such as below market interest rates (BMIRs) or discounted fees.

Consequently, the research design for this study had to address the likely variations in both the elements to be captured and in the availability of cost and funding data. The framework also had to be sufficiently flexible to allow reallocation of costs to different categories, both to reflect variations in how nonprofit sponsors categorized costs and to permit a variety of analyses and comparisons to be performed. The element of time was also a factor that needed to be considered in the framework and overall research design. It was anticipated that some components of a project's funding, such as a pre-development loan, might be "taken out" by other financing in a subsequent phase of the development (e.g., construction or permanent financing). In addition, the importance of expenses, resources, and subsidies could differ depending on when they occurred in the life of a development. Moreover, normalizing costs for the impact of time would be critical to making cross-project comparisons.

2.0 Development of the Framework/Data Collection Instrument

In constructing the cost and funding framework, therefore, some of the key criteria considered were the following:

- The framework had to be comprehensive, such that it could capture the full range of project resources and costs, including both direct and indirect, "hard" and "soft", cash and non-cash, documented and implied for all types of housing projects; it also had to be able to sort these items from costs or funding associated with other, non-development activities;
- The framework had to be sufficiently detailed and flexible to allow for reallocation of costs to reflect variations in how different nonprofits categorized expenses, and to permit a variety of comparisons among projects of different sponsors;

- The framework could not be overly sensitive to missing data, given that it was expected that few nonprofits kept cost records beyond those required by funding sources.

To deal with the anticipated variations in availability of data while meeting the study's need to construct as complete a financial picture as possible on each project, Abt Associates proposed to employ a framework with a **nested hierarchical structure**. This approach was expected to allow the capture of data on costs and resources on either a very fine or a very aggregated level of detail, depending on the information available at the nonprofit sponsor/project. In the hierarchical structure, costs were to be broken down according to **general phases** in the development process (e.g., pre-development planning, construction, and lease-up), further broken down by **major cost elements/groupings** within these phases (e.g., acquisition, financing/carrying costs), and then by **specific tasks or activities** (e.g., sewer and storm drainage). The wide range of project support sources available to nonprofits was to be organized according to **type of resource** (equity, debt, and non-cash contributions).

2.1 Review of Existing Accounting Frameworks

As an initial assessment of the applicability of this proposed framework structure, and to identify the ways in which development "sources and uses" were typically categorized, prior to the pilot case studies a review was made of existing cost accounting frameworks used by nonprofit housing developers. Pro formas and/or cost breakdowns on sixteen individual nonprofit housing developments were collected and reviewed, as well as cost accounting formats from three for-profit development firms. Applications and reporting forms for a variety of federal and state housing assistance programs were also included in the review.

The sample of pro formas/cost breakdowns collected as part of this initial review revealed a set of cost elements which were utilized on a fairly common basis¹. However,

1. The most frequently cited expense categories included the following:

Acquisition	Accounting
Site preparation	Bonding
Direct construction cost	Insurance
Architectural/engineering fees	Financial costs
Permits and surveys	Real estate taxes
Legal	Marketing and brokerage
	Developer overhead and fees

among the examples examined there seemed to be no standard approach to grouping these cost elements into larger categories or for determining which distinct expenses were included within each. For example, some developers included architectural fees under the heading of "construction" (and therefore as a "hard cost"), while others placed this line item under "professional fees" (generally considered a "soft cost").

In addition, there was little or no explicit attention paid in the majority of pro formas/cost breakdowns examined as part of the pre-pilot review to the cost of pre-development activities, such as the expenses associated with site search or deliberations with prospective abutters, city officials, and the affected community-at-large. In some cases, these pre-development costs may have been folded into the figure given for "developer's overhead", "developer's fee", "acquisition", "design", or "legal" expenses. The implication of this finding was that the "full development cost" reported by the nonprofit sponsors in the case study projects very likely would not represent a complete picture of the full cost of the effort (or if it did, this fact could only be determined through a careful, item-by-item verification of the scope of each cost element).

Similarly, as anticipated, it was rare for the collected sample of pro formas/cost breakdowns to list the value of donations (labor, materials, structures, land) which off-set out-of-pocket costs as part of the developer's expense calculations. Again this suggested that reported expenses would tend to underestimate the actual full development costs.

The review of existing accounting frameworks provided useful information in terms of the collection of data on financing as well. From the project financial analyses collected, it was apparent that some developments were phased with the expectation that revenues from the sale or rental of units completed in the initial phase would help finance the later phases of development. Therefore, it was anticipated that both the sources and figures for project financing, and the calculation of "full development costs", can vary widely depending on whether one is looking at the project from the standpoint of interim/construction financing or the permanent financing.

In conclusion, this limited survey of existing cost accounting formats suggested that there was no single "standard" for organizing financial data on sources and uses of funds in housing developments, and demonstrated that there can be wide variety in the level of detail in which development data is reported among projects. It was felt that the proposed nested

hierarchical approach to the case studies would be well suited to capturing data at the varying levels of aggregation likely to be encountered in the case studies.

The review did identify some necessary revisions to the proposed cost and funding framework for the task order, however, such as the need for the framework to more fully document the various elements in the construction financing, and the interrelationship of the interim/construction financing and the permanent financing of each project. Consideration also had been given to structuring the framework to track the value of the project resources and expenses (on the vertical axis of the framework) against time (on the horizontal axis). The survey of existing accounting frameworks, however, suggested that such an approach assumed a greater level of detail on the timing of expenses than most nonprofits would be able to provide.

A data collection instrument was drafted based on the survey of existing accounting systems and feedback on the research design received from the task order's group of expert reviewers. The instrument was generated for testing in four pilot case study sites. In addition to the cost and funding framework, the pilot data collection instrument consisted of sets of questions on:

- the history and purposes of the nonprofit sponsor;
- the physical characteristics of the development;
- the development team and project schedule; and,
- the non-development activities undertaken by the nonprofit sponsor.

The cost and funding framework portion of the instrument also included questions to prompt and clarify interviewees' responses regarding the finances of the projects.

2.2 Application of the Instrument in the Pilot Case Studies

The data collection instrument and methodology were tested in two case study sites in Washington, D.C. and two in Boston. Gaining access to some of these nonprofit sites initially proved to be somewhat problematic. Although the nonprofits generally had been enthusiastic about participation in the study during the telephone reconnaissance, the data collection and on-site interviews were delayed as a result of the conflicting demands on the nonprofits' limited staff resources. The key development staff often were concerned about the time demands that the research effort would place on them, and repeated phone calls and reassurances were

required to schedule the on-site sessions. Typically there was a period of two to three weeks between the initial attempt to schedule the interview and the actual session.

Once the interviews began, however, the nonprofit personnel were very accommodating with their time and forthcoming in their remarks about the projects. The nonprofit personnel also were relieved when the initial estimate of for interview sessions of no more than 1 1/2 to 2-1/2 hours proved to be accurate.

In addition to the difficulties in scheduling on-site time, several other lessons were learned through the pilot cases which led to revisions in the data collection instrument and methodology. First, the research design underestimated the volume of files which the nonprofits maintained on the projects. Therefore, rather than having the nonprofits forward a few standard documents to provide background on the projects prior to the site visits, the research staff chose to go through the files of the pilot projects themselves (either on-site or by borrowing the files overnight) to extract information for the data collection instrument. This process was time-consuming but productive in the amount of detail which could be derived on the individual projects from the project files. From the experience with the pilot sites, we decided to devote the first 1 to 1-1/2 days of subsequent site visits to file review, with interviews and inspection of the development scheduled for the end of the 2 to 2-1/2 day visits.

The experience in the four pilot cases resulted in some significant refinements to the data collection instrument as well. In some of the Tax Credit projects, the organizational relationship between the nonprofit sponsor and limited partnership was complicated. Additional space was added to that portion of the instrument to permit a sketch of the multi-layered organizational approach taken by some nonprofit projects.

The number and complexity of the underwriting and the interrelationships of the financing for the projects also were much greater than had been expected. To accommodate this complexity, a special supplemental form for capturing underwriting information was added, as well as more space adjoining the cost and funding framework to list the sources and basic conditions of the financing. Several pilot projects had different equity sources and/or amounts for interim or construction financing versus permanent financing, and therefore portions of the cost and funding framework had to be split into separate columns for "interim/construction" and "permanent" financing to more readily capture this information.

In regard to project expenses, the pilot case study experience suggested that few projects break out detailed information on infrastructure costs, instead folding these items under the "umbrella" of construction costs. A decision was made to revise the framework to make "site preparation and infrastructure" a major subcategory of construction costs, rather than maintain it as a separate category.

In addition, obtaining reliable estimates for staff time of sponsors proved somewhat difficult in the pilot case studies, especially for the pre-development and marketing phases. In response, it was decided to particularly emphasize the desire for such estimates during the pre-site visit communications with the additional case study sites.

Finally, although the scope of the task order was limited to examining the development costs and funding, in the pilot case studies it became clear that on-going rental assistance subsidies apparently played a key role in the feasibility of some of the nonprofit projects. Therefore, a decision was made to collect data on any rental assistance commitments received by the selected projects.

2.3 Framework for Collection and Analysis of Costs and Funding Sources

The cost and funding framework which was developed through the review of existing accounting systems and testing in the pilot cases provides a common basis for analyzing affordable housing developments. In general, the instrument provides for capture of cost and funding elements of an affordable housing development in such a way that data can always be collapsed to a specified basic set of elements. These elements are the ones used to report results.

As we have configured the cost and funding framework, total cash sources of funding must equal total out-of-pocket development costs (uses of funds), and total non-cash funding must equal uses covered by non-cash sources. Total funding includes non-cash sources, and *full development cost* includes non-cash cost elements. Because of the salience of contributions for this research, derivations of total contributions (that is, the sum of cash and non-cash contributions) are also developed. Further, attempts were made to identify the uses to which these contributions were applied. Two exhibits were developed to present the financial data for the fifteen case study projects. Examples of the exhibit formats are shown on the following pages. Exhibit 1 presents sources and uses of funds, and Exhibit 2 presents summary financial

data. The worksheet provides a step-by-step process for determining the values shown at the bottom of Exhibit 2.

In the exhibits, the **funding sources** are aggregated so that, for each project, basic elements of full development costs can be accounted for as one of the following:

- Cash equity, including sponsor's cash contributions from the organization's operating budget, sponsor's cash contributions from its capital budget, proceeds from syndication of Low Income Housing Tax Credits and other investment funds, deposits on unit purchases for cooperatives, cooperative capital fees and assessments, grants from private sources, grants from public sources, and interim project income;
- Debt, including all permanent loans; and
- Non-cash resources, including the imputed value of favorable financing terms, contributed services, and cost discounts in any form.

Development costs (uses of funds) have been aggregated to an exhaustive set of twelve categories (defined to be mutually exclusive) shown in the exhibits. Each category can have out-of-pocket costs and "costs" accounted for by a non-cash contribution in some form.

The remaining sections of this appendix outline important considerations in applying this framework and in computing both the amount and the impact of the development subsidies involved in affordable housing developments.²

2.3.1 Elements of Funding Sources

Cash Sources of Funds

Cash sources include equity, loans, and cash contributions. Grants and cash donations have been recorded as cash contributions. For development expenses paid out of the operating budget of either the nonprofit sponsor (i.e., time of staff working on the project) or the completed project, the contribution was recorded as cash if:

2. These issues are discussed in the abstract here. In some cases, the concrete implications of the framework are clearer in the context of the actual applications reported in Chapters 4 and 5, which describes funding sources and costs of development for the fifteen developments studied.

*Sources and Uses of Cash and Non-Cash Resources***Housing Development**

<u>I. Sources of Funds</u>	<u>Cash</u>	<u>Non-Cash</u>	<u>Total</u>
1 Sponsor Funds	\$0		\$0
2 Tax Credit Proceeds	\$0		\$0
3 Coop member shares and deposits	\$0		\$0
4 Cash Contributions, Grants	\$0		\$0
5 Permanent Loans	\$0		\$0
6 Value of below market interest rates and waived loan origination fees		\$0	\$0
7 Value of discounts and write-downs		\$0	\$0
8 Value of donated time and services		\$0	\$0
9 Value of staff time not paid by development		\$0	\$0
10			\$0
11			\$0
12			\$0
13			\$0
14			\$0
15			\$0
TOTAL	\$0	\$0	\$0

<u>II. Uses of Funds</u>	<u>Out-of-Pocket</u>	<u>Non-Cash Contribution</u>	<u>Total</u>
Planning and Design			\$0
Acquisition			\$0
Finance/Carrying Charges			\$0
Relocation			\$0
Construction			\$0
Real Estate Taxes			\$0
Marketing			\$0
Reserves			\$0
Legal and Organization (including Development Consultants)			\$0
Developer's Overhead/Staff			\$0
Developer's Fee			\$0
Syndication Costs			\$0
TOTAL	\$0	\$0	\$0

<u>III. Contributions</u>	<u>Cash</u>	<u>Non-Cash</u>	<u>Total</u>
TOTAL	\$0	\$0	\$0

EXHIBIT 2
Summary of Financial Data Analysis

Housing Development

		%
CASH EQUITY	\$0	0.0%
DEBT FUNDS	\$0	0.0%
NON-CASH RESOURCES	\$0	0.0%
TOTAL RESOURCES	\$0	0.0%
Percent Public Resources	\$0	0.0%
Percent Private Resources	\$0	0.0%
OUT-OF-POCKET COSTS	\$0	0.0%
VALUE OF SUBSIDIES AND DONATIONS	\$0	0.0%
FULL COST (Including Subsidies and Donations)	\$0	0.0%
<u>COSTS BY CATEGORY</u>		%
Planning and Design	\$0	0.0%
Acquisition	\$0	0.0%
Finance/Carrying Charges	\$0	0.0%
Relocation	\$0	0.0%
Construction	\$0	0.0%
Real Estate Taxes	\$0	0.0%
Marketing	\$0	0.0%
Reserves	\$0	0.0%
Legal and Organization (including Development Consultants)	\$0	0.0%
Developer's Overhead/Staff	\$0	0.0%
Developer's Fee	\$0	0.0%
Syndication Costs	\$0	0.0%
TOTAL	\$0	0.0%
LAND COST ESTIMATED	\$0	
TOTAL LESS LAND COSTS	\$0	

	<u>Including Land</u>	<u>Without Land</u>
Normalized Full Cost (Location and Year)	\$0	\$0
Normalized Standard Unit Cost	\$0	\$0
Initial Rent	\$0	
Initial Rent as a Percent of FMR	0.0%	
Initial Standardized Rent	\$0	
Initial Standardized Rent as a Percent of Median Income	0.0%	
Affordability Level	0.0%	
Required Rent if Fully Market-Financed	\$0	
Percentage Increase Required Over Actual	0.0%	
Percentage Increase Required Over Tenant Payment	0.0%	
Present Value of Subsidies and Donations	\$0	

WORKSHEET

Housing Development

	<u>with land</u>	<u>without land</u>
1. Normalized Full Cost		
a. Full Cost	\$0	\$0
b. Time Factor	1	1
c. Location Factor	1.00	1.00
d. a*b*c	\$0	\$0
2. Number of Standard Units		
a. Total Square Feet	0	
b. a/844	0.00	
3. Normalized Standard Unit Cost		
a. 1d/2b	\$0	\$0
4. Initial Rent as a Percent of FMR		
a. Initial Rent (wgtd by avg. unit size)	\$0	
b. FMR	\$0	
c. a/b	0.0%	
5. Initial Standardized Rent as % of Mean		
a. Actual Units	0	
b. Actual Units/2b	0.00	
c. b*Initial Rent (=Standard Rent)	\$0	
d. Median Income	\$0	
e. c/(Median Income/12)	0.0%	
6. Affordability Level		
a. Initial Standard Rent (5c)	\$0	
b. (a/.30)*12	\$0	
c. b/Median Income	0.0%	
7. Required Rent if Financed		
a. Full Development Cost	\$0	
b. Equity	\$0	
c. a-b=principal	\$0	
d. Debt Service at Market	\$0	
e. Monthly Operating Cost + Reserve	\$0	
f. d+e=Required Rent	\$0	
g. Percent Increase Required	0.0%	
h. Average Tenant Payment	\$0	
i. Percent Increase Required	0.0%	
8. PV of Subsidies and Donations		
a. Grants and Cash Contributions	\$0	
b. Non-Cash Contributions	\$0	
c. Diff. of PV of Actual & Market Loan	\$0	
d. a+b+c	\$0	

- (a) the funds were explicitly allocated to the development (as measured by a clear reference to the contribution in project financial statements); or,
- (b) nonprofit operating funds were transferred to the project account; or,
- (c) these funds were used to pay for discrete development-related expenses.

Otherwise, it was shown as a non-cash contribution (as in the case of staff time of the nonprofit sponsor not compensated for by the development and not formally tracked by the sponsor).

Cash sources reflect the **permanent financing** of the development. Therefore, financing elements such as interim or construction loans that were "taken out" by the permanent financing do not appear as cash. This interim/construction financing, however, is described in the individual case study narratives (Appendix E).

Non-cash Sources of Funds

In some cases, lenders build into the project budget, as offsetting sources and uses entries, a "paper" development element such as "builder's and sponsor's profit and risk allowance" or an allowance for a developer's fee that was not intended to be realized as cash, but instead was "contributed" to the project as "equity." (The function of such a line item is to improve the finances of the project for underwriting purposes by reducing the apparent loan-to-value ratio for the project.) These items have been recorded as non-cash contributions.

Donated land, structures, or infrastructure have been recorded as non-cash contributions. Also included as a non-cash contribution is the value of contributed staff time (staff expense not covered by the developer's fee or otherwise reimbursed). Interest subsidies, waived fees, and discounted fees or labor rates also are recorded as non-cash contributions. The interest subsidies include any subsidies realized from interim or construction financing "taken out" by the permanent financing; the notes for the case study exhibits identify the sources for each interest subsidy shown.

Values of Interest Subsidies

In calculating the interest subsidy, the optimal approach would be to compare the interest rate charged with the "conventional" rate in use for the time period in the locality. However, in the fifteen cases examined, it was not possible to discern standard "conventional"

interest rates because (a) these projects are not viewed as "conventional" by the financial institutions, and (b) the rate would depend on the entire lending package, including amount of equity, public grants and guarantees, loan position, collateral, pre-funded debt service reserves, and points to be charged.

Nonetheless, the loans with indisputable "below market" interest rates in the fifteen case studies tended to have been received from public funding sources or groups like the Enterprise Foundation or the Local Initiatives Support Corporation, and the loans made by the private financial institutions were essentially viewed as "conventional." The interest rates charged by the lending institutions for these "conventional" loans to the projects ranged from 9 percent to 13.5 percent, with most in the range of 9.5 percent to 11 percent.

Therefore, as part of the effort to standardize among the case studies, in calculating the value of an interest subsidy it was decided to use 10 percent interest as a uniform figure for the conventional interest rate³. The difference between this conventional rate and the rate charged is the effective interest rate subsidy, which can then be applied to the period of the loan. In computing the subsidy during the development period, the difference in rates has been applied from the point of the loan closing through development. If the loan was intended for acquisition, a single lump sum draw has been assumed. If the loan was intended for construction, equal installments over the life of the loan has been assumed (and an adjustment coefficient of 0.5 was used), unless the size of the loan or project documentation suggested that a lump sum draw was made. Similarly, for calculating the value of any interest subsidy in the permanent financing, a level-payment loan with the same term as the loan is assumed, and the differential rate has been applied to that period.

For construction loans, simple interest has been assumed; for permanent financing, monthly compounded interest has been assumed. In addition, if the lender did not charge a loan origination fee, a non-cash contribution equal to one percent has been imputed.

3. Consideration also was given to utilizing a rate reflecting what a for-profit would have had to pay in each community, in order to avoid understating the value of any interest subsidy. However, variations among financial institutions in the loan terms, conditions, and rates charged at any point in time, and over time, suggested that precise values would be difficult to establish without extensive surveys in each locality. Moreover, it was concluded that in some cases, there would be no corresponding "for-profit" counterpart project to establish such a rate, due to the location of the non-profit project and local market conditions. Therefore, although further research on the issue of comparable interest rates is being recommended in Chapter 7, for the purposes of this preliminary analysis, the 10 percent figure is felt to provide a reasonable basis for an initial estimate of interest subsidies.

Present Value of Capital Subsidies and Donations

The present value of the capital subsidies and donations derived in the framework represents the sum of:

- all grants and cash contributions;
- non-cash contributions during the development period; and,
- the difference between the actual loan amount and the present value of anticipated payments on all BMIR loans. For loans with equal payment installments, this is derived by calculating the annual payment amounts using the following formula:

$$AP = M \times \left[\frac{i}{1 - \left[\frac{1}{1 + \frac{i}{12}} \right]^{nx12}} \right]$$

where:

AP = annual payment amount
 M = mortgage amount
 i = actual interest rate, and
 n = duration of loan in years

If repayments were deferred on some irregular schedule, the present value is computed using monthly discounting for consistency:

$$V = \sum_{x=1}^X \frac{A_x}{\left(1 + \frac{r}{12}\right)^{12x}}$$

where:

V = present value
 r = standard discount rate
 A = amount to be repaid
 x = year of repayment, and
 X = year of last repayment

The present value, V , is computed using a discount rate of 10 percent for the effective savings in capital value from a public perspective.

Crediting Syndication Proceeds to the Development Period

Although for most funding sources the analysis only considers resources provided during the development period itself, there are two exceptions to this rule. The first exception, previously mentioned, was in the case of contributions from the operating budget of either the completed project or the nonprofit sponsor which, while expended after the permanent financing closing, has been allocated to costs that clearly are development-related (e.g., cost certifications or construction cost overruns).

The second exception is in connection with syndication proceeds resulting from a project's use of Low Income Housing Tax Credits. These proceeds are the result of investors taking an equity position in the project as owners, although the installments of proceeds may be structured to come in over a period of several years. For many of the projects among the 15 case studies, *these proceeds are the principal form of equity*. In order to show this equity, the total proceeds associated with the project (including proceeds applied to syndication costs and other "loading") have been attributed to the development period, regardless of when they were received. To avoid double-counting in the "sources," these proceeds have been assumed to "take-out" a corresponding amount of bridge loan or other debt financing.

In the "uses" portion of the analyses, the syndication proceeds are shown as applied either to project development expenses or to the "costs of syndication," which include such items as the Tax Credit application, net worth account requirements, accrued interest on bridge loans, and investor servicing charges. Like the installments themselves, some of the latter category of costs extend beyond the "development period".⁴

Value of Donated Staff Time/Labor

In developing a value for the contributed staff time/labor expenses, every effort has been made to build up a figure based on the organization's estimate of the time that was involved (e.g., in hours or person years) and the standard rate the organization charged for similar functions. Due to significant variations among the rates charged by organizations, this sometimes leads to different cost estimates for identical functions among projects. Nonetheless,

4. An alternative approach would use a present-value analysis to account for all these post development funding receipts and costs of syndication.

it was felt that this approach still produced the best estimate of what the particular activity in the particular organization would have cost if the expense had come out-of-pocket.

Where information on rates or reasonable estimates of time involved were not available from the organization, build-ups have been made based on industry standards for the MSA (or, if those also were not available, on national standards). Every case study includes notes for the exhibits or comments in the narrative to explain which approach has been used for each estimate of contributed staff time or labor.

In addition, the analysis assumes a normal developer's fee/overhead equal to six percent of the net development cost.⁵ If the actual overhead and fee received by the developer exceeded this amount, then the actual amount has been used in the analysis; if the overhead and fee was less than 6 percent, the difference between the actual and 6 percent has been recorded as a non-cash contribution to the project. When some of the fee received was applied in the sponsor to another cost element (e.g., construction cost overrun), the cost element reflects that part of the fee, but the fee implementation is made taking the full fee, as received, into account. That is, the imputed fee does not try to recapture fee "lost" to another cost element (e.g., construction overrun).

Value of Donated Land, Structures, or Infrastructure

For donated land or structures, the best sources for an estimate generally are either appraisals done for the project or assessments -- based on one hundred percent valuation -- obtained from the municipal assessor's office. (The latter could also be used to calculate the value of waived real estate taxes.)

There were not many instances of donated infrastructure among the fifteen case studies. In cases that included such contributions, estimates of the value of the infrastructure were elicited from members of the project development team, then checked with local utilities/public works sources or against the R.S. Means site work cost data.

Value of Waived Fees or Real Estate Tax Abatements

Some projects among the 15 paid full fees and taxes, others did not. For purposes of uniform accounting, the value of waived fees has been based on project records (e.g., settlement

5. Excluding overhead and fee.

documents) or estimates obtained from project staff or the relevant agencies. Estimates for tax abatements, if an exact figure was not available, have been calculated on the basis of the property's assessed value and the locality's relevant tax rate.

2.3.2 Uses of Funds

Categories of Development Expenses (Uses of Funds)

The Uses component organizes development expenses into twelve groupings. The most common of the major expense elements identified from a review of existing development and accounting formats were used in designing the categories for this study's cost framework, and our data collection instrument details what items are included in each category. (See Appendix D.) These categories are:

- Planning & Design
- Acquisition
- Financing/Carrying Charges
- Relocation
- Construction
- Real Estate Taxes
- Marketing
- Reserves
- Legal and Organization
- Developer's Overhead/Staff Expenses
- Developer's Fee
- Syndication Costs (where applicable)

However, because of differences among the nonprofits in the categories to which they attributed particular costs, there is sometimes a difference between the analytic figures presented in the case studies for various categories of out-of-pocket expenses and what a nonprofit itself would report for that category (using its own topology of costs).

Some additional qualifications should be made in regard to the study's estimates of development costs for the case study projects:

- 1) First, in some cases, no one involved in the project had completed a reconciliation of expenses across the various funding sources. In these instances, the research staff prepared a rough reconciliation of the costs versus funding, but no rigorous financial statement on the project was prepared.
- 2) In addition, a number of the projects had auxiliary agreements among development team members or with lenders, and copies of these agreements were not always available. Unless all these supplemental agreements and their

terms were identified, some cost elements may have been overlooked or misclassified.

- 3) Finally, the analysis assigned a value to contributions and subsidies in each of the case studies. These imputations are clearly identified but generally do not reflect any record of such subsidies kept by the sponsors and thus are subject to dispute.

2.3.3 Normalization of Development Costs

Normalization of Development Costs for Time and Location

Once a full development cost is derived for a project, this figure has been normalized for time and region to permit cross-project comparisons among developments of the same building type and across the entire sample.⁶ The normalizations (with and without land costs) were performed utilizing the location and annual factors contained in R.S. Means' *Square Foot New Construction Costs (1991)*, and are shown for each case study.⁷ The R.S. Means per-square-foot costs are averaged across typical developments in an area and are not expected to be accurate reflections of actual construction costs for a particular project, for several reasons:

- Units may be larger or smaller than average, the latter costing more per square foot (but less per unit) because smaller units require nearly as much bathroom and kitchen plumbing and fixture cost as larger units;
- Various subsurface conditions impose very different sitework and foundation requirements;
- Building code requirements vary from city to city, often with more stringent requirements in older central cities;
- Site and neighborhood considerations often complicate the building configuration and impact costs;
- Metro-average conditions often do not reflect realities of central city development, with cramped lot sizes, need for round-the-clock security;

6. It is important to keep in mind that the small and non-random sample represented by the fifteen case studies precludes the ability to make any statistically valid generalizations. The normalizations are useful, however, in examining ranges and patterns of costs.

7. Although the R.S. Means location factors strictly apply only to construction costs, we have applied them to full development costs.

- Developments created without federal assistance do not encounter Davis-Bacon prevailing wage requirements, which may impact costs.

Data for all projects have been "normalized" to create comparable cost values for development in Washington, D.C. in January 1991. To do this:

- a) The development cost is first normalized to 1991 dollars by dividing the R.S. Means 30-city cost index for 1991 by the 30-city cost index for the year the project was completed. Then the full development cost is multiplied by the result of this division (the dividend).
- b) Next, to adjust for locational differences in cost, the 1991 R. S. Means Location Factor for Washington, D.C. is divided by the 1991 Location Factor for the MSA in question, and then the figure from (a) is multiplied by the result of this division.

Normalization of Development Costs for Building Size

The case study projects differed in scale and in the mix of units developed. To facilitate comparison, a standard unit cost was calculated for each development. To do this, each project is first converted into an equivalent number of "average-size" 2BR units by dividing the square footage of the living area of the development by 844 square feet, which is the mean square footage for a two-bedroom unit derived from Abt's study of HUD-insured multi-family housing⁸. Given the focus of the case study sample on multi-family housing projects, with the majority of the units involving two or more bedrooms, the 2BR unit standard was felt to be the most appropriate basis for comparison among the projects. (We have not tried to standardize for presence of elevators, or to reflect the fact that kitchens and baths are more costly per square foot than other rooms.) The normalized full development cost is then divided by the number of "standardized" 2BR units in the development to yield a "normalized standard unit cost".

3.0 Analysis of Rents

Data on initial rents and carrying costs in the fifteen developments are presented in a variety of forms in the individual case studies. "Initial rent" refers to the monthly budget reflecting all the capital subsidies, including favorable financing terms but does not reflect any operational subsidies (rental assistance) that the project may receive to further reduce effective tenant rents or payments. "Initial rent" is calculated as a weighted average by unit size. "Initial

8. "Current Status of HUD-insured Multi-family Rental Housing", Abt Associates, Inc., Cambridge, Massachusetts (September 1992).

rent as a Percentage of FMR" is derived by dividing the weighted average rent by the weighted average FMR for the MSA in the relevant time period.

In order to be able to contrast what the affordable units would have cost without the subsidies present, and to compare experiences among projects, several other rent-based indicators were derived. "Initial standardized unit rent" was calculated by multiplying the "initial rent" by the number of units, and then dividing the result by the number of standardized 2BR units. "Initial standardized unit rent as a percentage of median income" was determined by dividing the standard unit rent by one-twelfth of the median income for a family of four for the relevant MSA and time period.

A "rent affordability measure" has been used to show the level of household income, as a percentage of median income, that would be sufficient to ensure that the initial rent was affordable (no more than 30 percent of income) without further operating subsidies. This measure is computed by dividing the initial standardized rent by 0.30, multiplying by 12, and then dividing the result by the median income for a family of four in the MSA.

Another measure, the "required rent if fully financed at market rates" examines the impact of the project's combined development period subsidies and contributions. It is a calculation of how much higher the rents would need to be if these subsidies and contributions had not been available. This figure is computed as follows:

- a) The owner's equity is subtracted from the built-up full development cost (which includes contributions and subsidies) of the project. Owner's equity consists of such items as cooperative member shares, purchasers' deposits, and syndication proceeds delivered to the project. However, grants are not considered owner's equity for this calculation.
- b) Using the result from (a), a calculation is made of the debt service per unit month that would result if this amount were mortgaged for 30 years at a rate of 10 percent interest, amortized with even monthly payments.
- c) The first year's operating budget, including reserve contributions but excluding debt service, is then adjusted to reflect per unit monthly cost, and the result from (b) is added to it. This combined figure is the "required rent," the rent that would need to be charged to support the project in the absence of the subsidies and contributions.
- d) From the result in (c), the percent increase represented by the required rent is calculated.

In projects with firm commitments of project-based Section 8 rental assistance, the analysis also shows the change in rent levels if both the development period subsidies and contributions and these rental assistance subsidies were not available.

APPENDIX C

ASSESSMENT OF THE COST AND FUNDING FRAMEWORK AND COLLECTION METHODOLOGY

This Appendix presents a description of the research experience relative to the application of the cost and funding framework/data collection methodology to the *complete sample of fifteen case studies*. The presentation focuses on the data collection methodology's ability to identify and capture complete and consistent cost and funding data. Particular attention is devoted to generally useful sources of data which were identified, to categories of information which frequently were not available in a documented form, and to the derivation of estimates for such undocumented resources or costs. The time required to apply the framework/data collection instrument in the case studies is also assessed.

Based on this evaluation, the appendix concludes with recommendations for further refinements to the data collection instrument.

1.0 Analysis of the Utility of the Data Collection Instrument/Framework in the Fifteen Case Study Developments

The expectation was that the first phase of the site visits would be devoted to review of project files. In the contacts confirming the site visit dates, however, the nonprofit sponsors were generally requested to forward any written overviews on the project or their organization. Overall, ten of the fifteen sponsors responded by transmitting some information prior to the visits. If the time periods between the request and the scheduled visits had been longer than the 2 to 3 weeks available, and if follow-up requests for the data had been made more systematically, it was felt that this response could have been further improved.

The materials most commonly forwarded by the nonprofits were copies of annual reports, pro formas, cost certifications, financial statements and operating budgets. On average for the sites which forwarded written materials, research staff spent eight hours per project reviewing this material and transcribing it onto the data collection instrument (the range for the time spent on this task was from a low of two hours to a high of sixteen hours for a single project).

The site visits to each project generally were carried out by a single senior research staff member¹, with each visit lasting 2 to 2-1/2 days. The file research portion of the visit lasted from one to two full days, depending on the complexity of the case and how well organized the files were, and averaged approximately eleven hours per site. A typical pattern was for the researcher to spend the first full day reviewing the files, and then returning to them after the interviews to confirm data or reconcile conflicting figures.

For each case study an average of 4 to 5 individuals were interviewed; the number of persons interviewed for a single project ranged from two to seven. The most common candidates for interviews were the executive director of the nonprofit, the project director/developer, the development consultant (if there was one), the property manager, and the syndicator (if tax credits were involved). Other individuals frequently interviewed included accounting staff of the nonprofit, city or state officials, legal counsel for the sponsor, the project architect, the construction manager, development partners, the appraiser, and project intake staff.

On-site interview sessions accounted for the majority of the interviews, with each lasting between one and three hours. For all the cases, some follow-up phone calls were necessary. In some instances these calls were devoted to interviewing additional members of the development team who either were not available during the site visit, had played a more minor role, or were only required for answers to a few technical questions (e.g., the project architect). Calls were also made to individuals who had been interviewed on-site, in order to fill in missing data or resolve any apparent discrepancies that subsequently emerged when the data was being analyzed. Up to four hours per site was spent on such follow-up calls.

The analysis of the data and preparation of a preliminary written narrative for each project required 16 to 40 hours, with an average of twenty-six hours spent per case study. Approximately half this time was spent on analysis, and half on writing the narrative. Additional follow-up to fill gaps and reconcile inconsistencies typically required 4 to 24 hours, with an average of eight hours per case study.

Cumulatively, the average time spent per project on the pre-visit data review (4 hours), the site visit (16 hours), analysis and preparation of case narratives (26 hours), and

1. The Project Director accompanied one of the field staff for some of the interviews for one of the pilot cases and one of the subsequent case studies; similarly the GTR participated in interviews of non-profit project staff for a pilot case and a subsequent case.

miscellaneous follow-up for missing data (4 hours) resulted in a total of 54 hours of research time for each case study.

Based on the experience with the fifteen case studies, we now turn to an assessment of the capacity of the data collection instrument/cost and funding framework to capture complete and consistent data for the various categories of information on the projects and their nonprofit sponsors.

1.1 Collection of Information on Overall Organizational Characteristics of the Nonprofit Sponsor (Section A of the Data Collection Instrument)

The data being collected by this component of the instrument were concerned with the tenure, organizational focus, sources of revenue, and development experience of the nonprofit sponsor. In general, this information was easy to obtain, with the principal sources of data being annual reports, financial statements, and interviews with the nonprofit's executive director and senior staff.

For some of the projects, an unexpected definitional problem was encountered in determining which nonprofit was "the sponsor" when more than one such organization was involved. The standard employed in these circumstances was that whichever organization was both credited with the developer's fee (as opposed to a development consultant's fee) and demonstrated an on-going commitment to the specific neighborhood was considered to be the nonprofit sponsor².

The most problematic of the information being sought through Section A of the data collection instrument was the data on the nonprofit sponsor's overall operating budget (Section A.5). For one thing, although financial statements were readily available, the categories for sources of revenue provided by the organizations' accountants in these statements tended to be generic ("restricted grants", "unrestricted grants", "government support", "institutional contributions", etc.) and lacked the specificity sought by the instrument. Interviews with the sponsor's executive director/senior staff usually helped to clarify these revenue figures somewhat

2. For example, in the case of the Florian Gardens Cooperative, both the Florian Gardens Tenant Association and Project WISH were involved. Although Project WISH credited the Tenant Association with the leadership and ultimate decision-making authority, for the purposes of the case study WISH was considered the "sponsor," because the organization provided the technical expertise, received the developer's fees, maintains a continuing relationship with the development and neighborhood, and has a continuing role as a housing developer.

but, without an inordinate investment of time to develop revised allocations among specific sources, only rough estimates could be obtained.

When we began to analyze the information from Section A of the data collection instrument, it was realized that some of the field staff had only captured data on the nonprofits' total housing production experience for the past five years, rather than for the five years preceding the case study project. In these instances, the field staff re-contacted the nonprofits to collect the additional information in order to permit us to compare the relative expertise of the sponsors at the time that they were initiating the case study projects. At the end of this appendix, we have recommended revisions to this portion of the data collection instrument to ensure that more complete data on the nonprofits' production experience are captured.

1.2 Collection of Information on Characteristics of the Housing Project (Section B of the Data Collection Instrument)

This component of the data collection instrument focused on the physical characteristics of the development, including the number, size, and cost of individual units, and on the nature of the tenancy. Beyond providing a fuller description of the project, much of this information was intended for making adjustments for differences in costs to normalize among comparable building types, using indices for various construction elements from R.S. Means.

The information for this part of the instrument commonly was secured from documents that were part of the closing brief for the financing of the project, and from interviews with the project director/developer or development consultant. For example, if the development was allocated project-based Section 8 rental assistance, a copy of the Housing Allowance Payments Contract was included in the closing brief, and established the initial after-rehab/development contract rents for the affected units.

The quantitative information sought for this section of the instrument usually did not prove difficult to obtain, with the occasional exception of a figure for the linear perimeter of the development site. When this datum was not available from the site plan, assessor's records, or other project documents, the research staff generated an estimate by pacing off the development site.

Surprisingly, a qualitative descriptor being sought proved consistently to be the most troublesome piece of information from this section to capture. As a measure of "quality" of the housing product (again, for use in adjusting for costs among similar housing types), the nonprofit

sponsors were asked to rate their development according to R.S. Means's definitions of "custom", "average", or "economy" standards for residential construction. The nonprofit representatives in many cases felt uncomfortable with the definitions, and often deferred the issue to the project architects to answer, who themselves often expressed dissatisfaction with the distinctions made by R.S. Means. Overall, the majority of projects graded themselves as "average", with an occasional "economy" rating.

1.3 Collection of Information on the Development Team and Process (Section C of the Data Collection Instrument)

This section of the instrument records information on the ownership structure of the project, the composition of the development team, their various roles in the project, their professional backgrounds/training and previous relationships with each other, as well as the dates of the major milestones of the project. These data were obtained from documents generally found in the closing brief (closing index, loan applications, certificates of legal existence, articles of incorporation, assignment documents, counsel's opinion re: tax credit basis), supplemented by general descriptive material on the project which often the nonprofit had prepared, and interviews with the development team members themselves.

As mentioned in the description of the pilot case study experience, the organizational approach and relationships employed in some of these nonprofit projects were much more complex than originally anticipated. However, the solution that was formulated after the pilot cases of providing space to sketch a diagram of the organizational relationships seemed to work well to provide a succinct representation of the structure of the ownership and/or development team. The data collection instrument was somewhat less well structured for consistently capturing information on the training and professional background of the nonprofit's key development staff.

As the last piece of information to be covered during the interviews before turning to the cost and funding framework component of the instrument, the data on project milestones proved to be a valuable point of reference for subsequently maintaining the proper sequencing of development stages and for testing the completeness of the cost and funding figures provided. As occurred with one case, for example, if the milestones indicated that acquisition took place in May but that the closing on the principal project financing did not happen until July, the

research staff knew to probe for a source of bridge financing, and to make sure the financing/carrying charges reflected the interest on the bridge loan.

1.4 Collection of Data on Project Financing/Sources of Funds ("Sources" Component of Cost and Funding Framework)

As previously noted, the framework was designed to capture data on "sources of funds" according to three categories: equity, debt, and non-cash contributions. The framework also allowed for a distinction between interim/construction financing and permanent financing for the project.

Overall, the data collection instrument/framework functioned well at capturing a complete picture of the resources available to the nonprofit projects. The interview guidelines which were incorporated on the facing pages to the framework seemed to work well to structure the process of addressing the corresponding framework line items in the interviews and helped to elicit more complete descriptions. Similarly, the worksheets on the facing pages proved to be useful as a place to temporarily record funding sources identified in interviews or from file data before the amounts or nature of these sources were precisely known. As these data were clarified, they could then be entered into the appropriate categories in the framework itself.

The most common forms of *equity* encountered in the case studies were Tax Credit syndication proceeds, public grants, foundation or other private grants, and cooperative member deposits or fees. Sources of data on the equity contributions included project pro formas, loan applications, side letters to loan agreements, cost certifications and financial statements, cash flow analyses, and the syndicator's sources and uses analysis for capital contributions.

There were several complicating issues in regard to the valuation of equity contributions. First, some of the funds awarded to the projects came in the form of "deferred payment loans" or "residual receipts notes," but while the documentation described loan terms, in fact the debt could be (and, according to project representatives, probably would be) forgiven over time, therefore becoming a grant. This scenario occurred most frequently with CDBG and Rental Rehabilitation Program funds, but also in some cases with linkage or private loans. For consistency, if at permanent closing these funds were still listed as debt obligations, they were treated as loans, regardless of their final disposition.

Another issue with regard to equity funds was the custom of some financial institutions to count any funds other than their own loan to the project as "equity" (see Boston cases for

examples of this). Again for consistency, any funding borrowed was recorded as debt financing, regardless of how it was characterized by the other financial institutions in the case study.

A third equity issue concerned examples of the nonprofit sponsor forgoing its developer's fee and claiming this as equity in the project. The fee was then shown in the development budget as off-setting entries under "sources" and "uses." While this designation may have been satisfactory to some of the funding sources in order to show a lower loan-to-value ratio, for the purposes of this study, such items were recorded as a contribution under "non-cash resources".

A final issue regarding total project equity related to the Tax Credit syndication proceeds. Given that the study was concerned with the development period of these projects, the research basically focused on the finances of the developments through permanent closing. However, the nature of syndication proceeds under LIHTC is that the investor contributions often come as installments to the projects over a number of years. In the case studies, the maximum term for syndication installments was 7 years. Since these installments represent the investors taking equity positions as owners in the projects, and are thus considered capital contributions toward development, all syndication proceeds were counted in the calculation of project equity for development, regardless of when they were (or would be) received. As necessary, off-setting adjustments were made in the figures for bridge loans and other advances against the future syndication proceeds.

Debt financing occurred in the case studies in the form of pre-development loans, acquisition loans, construction loans, permanent loans, and combinations of the above (such as mini-perms). The majority of the loans from private financial institutions were essentially provided at conventional interest rates and terms, whereas the majority of publicly-funded loans were at below-market interest rates and included other concessions. Common sources of information on debt financing included the loan documents in the closing brief, the project cost certifications, and the financial statements for the projects and/or sponsoring organizations.

Although data collection on the debt financing was probably the most straightforward element of the research, care still had to be exercised, because on occasion the actual conditions of the loan would prove to be different from what was described in the original loan documents. For example, the nonprofit might have realized some cost savings during construction and therefore not drawn down the full amount of the construction loan. Or the construction period

may have been longer than anticipated, and a loan extension was negotiated at a different interest rate. The cost certifications and financial statements often provided indications of such amendments to the loan terms, which could then be verified through interviews with the project director/developer or accountant for the project.

During the four pilot case studies, it became obvious that the numbers of funding sources, and particularly the different ingredients of debt financing, exceeded the space allowed for such entries on the worksheet in the data collection instrument. There was also insufficient room to record the various underwriting requirements and other conditions for the debt financing. In the revised version of the data collection instrument used for the subsequent eleven case studies, more space was created for recording the elements of debt financing, and a separate, supplemental "underwriting worksheet" was added at the end of the instrument. To encourage more consistent recording of underwriting conditions, however, it is recommended that this supplemental worksheet be incorporated in the main body of the data collection instrument.

The "sources" portion of the framework was sufficient to record the various *non-cash resources* realized by the case study projects. Although the framework could accommodate the assorted categories of contributions encountered, there were difficulties experienced in developing estimates for some of these donations.

The most common non-cash resources observed in the case studies were donated and/or discounted land or structures, publicly and privately financed below-market interest rate loans, and donated professional services. Estimates for the value of land and structures were relatively easy to obtain; they were primarily derived from appraisals for the project or assessment records. For the low interest loans, as discussed in Chapter 2, the level of subsidy was calculated based on the assumption of a conventional interest rate of 10 percent.

Precise estimates of donated professional services were difficult to obtain, more so for some activities than for others. For example, for pro-bono legal services, through discussions with the project director and/or attorney, an estimated number of hours could be reconstructed for the particular activities based on the local norm for such functions. This figure could then be multiplied by the standard hourly rate, to get a reasonable approximation of the value of the contributed time.

On the other hand, although most of the nonprofit sponsors donated some staff time to their respective projects, the organizations generally had a much more difficult time assigning a reasonable value for this contribution. The time donated by the sponsors' staff to the various projects tended to cover a much wider scope of activities, and typically the nonprofits had not maintained any records for tracking this contributed time (often viewing this contribution as inherent to nonprofit development). Therefore, the estimations offered by the sponsors were much less precise, and were usually expressed in number of person-years or as a percentage of the staff reimbursements realized (e.g., "it cost us fifty percent more in staff time than the amount paid for by the project").

The case studies also revealed examples of forgiven liens, tax abatements, forgiven/deferred public fees, publicly-financed infrastructure improvements, and donated labor/materials. For forgiven liens, tax abatements, and waived fees, precise figures or reasonable estimates could be derived from the closing briefs, tax records for the projects, or standard rates charged by the municipality. The sponsors' approximations for the infrastructure improvements or donated materials/labor often were "ballpark" estimates, but these subsequently could be checked against industry standards contained in R.S. Means reference manuals for further adjustments.

1.5 Collection of Data on Project Expenses ("Uses" Portion of Data Collection Instrument)

Overall, detailed documentation on complete project costs was less readily available than the corresponding data on sources of financing. Although the cost certifications for the projects had precise breakdowns for mortgageable costs, often the developments had substantial non-mortgageable costs which were not addressed by these documents. The financial statements for the developments sometimes would provide a lump sum figure for "other project costs" but little specificity regarding uses. Also, if the project had Tax Credit syndication proceeds, since the certifications were prepared around the time of construction completion/permanent closing, and the financial statements were completed through the most recent operating year, they generally did not present a complete picture of the amounts and intended uses of subsequent syndication installments.

Therefore, the data collection effort for project expenses often focused on obtaining a final project "sources and use" spreadsheet from the project director/developer and/or

syndicator. While these spreadsheets did not depict audited figures, they still represented the most comprehensive available portrait of the expenses incurred by the development.

In some cases, however, neither the nonprofit sponsor nor any of the funding sources had compiled a comprehensive spreadsheet on sources and uses on the project. In such instances, the research staff would obtain the separate funding and cost data from the individual funding sources and using them construct a comprehensive spreadsheet for the project. Usually this was done by taking the largest and/or most detailed of the individual sets of cost breakdowns (frequently the project's cost certification), and then "backing" the other sources and expenses into it. This was a time-consuming process, and while the resulting figures included numerous estimates, the product of this effort represented the best cost data available for the project.

In terms of the individual cost categories, certain expenses tended either to have good documentation available or, if they represented non-cash donations, yielded detailed estimates more easily. Among such categories were costs of: acquisition, financing/carrying charges, relocation, construction (including site preparation and improvements), real estate taxes, and reserves.

Expense categories for which obtaining precise cost figures proved more problematic included: project planning and design, marketing and brokerage, organizational and legal, and developer's overhead/fees. For example, well-documented information was available on architect's fees, engineering fees, and any special surveys or assessments. More difficult to determine, however, was the cost of site search and any market feasibility/affordability analyses if these were done in-house by the nonprofit sponsor. Rarely did the nonprofits keep a close accounting of staff time involved in these activities or of the time committed to the planning/zoning approval process. Nor did the cost certifications delineate whether any of the mortgageable reimbursements for sponsor staff time related to pre-development activities. In several instances, however, the nonprofits received grants specifically to cover their pre-development expenses, so estimates could be derived from these. The "sources and uses" breakdown for syndication proceeds also occasionally identified an allocation of these funds to cover the sponsor's pre-development expenses. In the remaining cases, it was necessary to obtain a rough estimate from the nonprofit sponsor of staff time involved and then to calculate a figure to go with it.

The experience with capturing data on "marketing and brokerage" expenses was similar. If this function had been contracted out, good cost figures were available. Otherwise, the sponsors were only able to provide a rough estimate of time involved, which sometimes became a donation to the project. Likewise, for "organizational and legal" expenses, discrete costs or contracted services such as legal, accounting/cost certification, development consultant, and coop training were well-documented. However, if the sponsor had figures at all for overhead or for other more general organizational costs, they were only "ballpark" estimates.

Establishing a value for the "developer's fee" was also sometimes difficult. Some of the cases showed the developer's fee as a "paper expense" donated by the sponsor as equity (and therefore treated in our analysis as a non-cash contribution). Most of the nonprofit sponsors had only a portion of their actual staff costs reimbursed, and looked toward future syndication proceeds as a way to potentially realize a deferred developer's fee. If a portion of future proceeds was specifically allocated to this purpose, a corresponding amount was shown as a "cash" developer's fee expense; if the availability of the syndication proceeds was in doubt, the amount was entered as a "non-cash" contribution.

In regard to the overall utility of the framework in capturing cost data, the nested hierarchical structure worked well in allowing the integration of available cost data regardless of its level of aggregation. The detailed breakdown of expense items within categories also promoted a more complete collection of development costs, despite some of the difficulties in calculating specific estimates. This detailed itemization also permitted the framework to accommodate different typologies of expenses, and creates an on-going capacity to re-assign individual cost elements to new expense classifications if subsequent research suggests a better method for categorizing costs.

The one facet of the cost framework that needs further elaboration is in the area of syndication costs. When the current version of the framework was being developed, it was not anticipated that Tax Credit syndication proceeds would be such a common element on the case studies, nor the range of costs which can be associated with acquiring such investor contributions for a project. Therefore, it is recommended that "syndication costs" be made into a major cost category in the framework.

1.6 Collection of Information on Non-Development Activities by the Nonprofit Sponsor

This section of the data collection instrument concentrates on management of the completed project, and other activities by the nonprofit directed at the development or neighborhood in which it is situated. It also seeks to assess the sources of funding for these activities and their impact on the project and surrounding community. Finally, at the end of this section, space is provided to enter information on on-going rent subsidies received by the project, for use in analysis of rent levels.

The data to complete this section of the instrument were generally obtained from annual reports and interviews with the nonprofit sponsor's executive director/senior staff. The identification of the entity performing property management and the fee structure for such services was available for all projects. The interviews and annual reports also yielded data regarding a variety of activities pursued by the sponsors relative to the developments or surrounding neighborhoods, including coop training, day care, tenant organizing, youth recreational programs, youth work programs, educational programs, community planning, and economic development.

2.0 Application of the Framework to a Larger Sample

The application of the costs and funding framework in the fifteen case studies has shown its utility in obtaining a complete financial picture of the development period for such projects, as well as its capacity to accommodate varying organizational settings, availability of records, and cost accounting systems. The research experience has shown that it is possible to find the data we were seeking, to use the cost and funding framework for summarizing development expenses in standard categories, and to capture the chronology and qualitative aspects of the development process through the other components of the data collection instrument. The level of detail captured through the nested hierarchical structure of the cost and funding framework also supports the ability to re-categorize the collected data if a different cost classification scheme is chosen.

Although the data collection methodology that was refined over the course of the research is effective at securing the desired information while imposing only a modest burden on the nonprofit sponsor, it is still quite labor-intensive for the research staff. The study identified some common development documents that generally serve as useful sources of data

on project financing and expenses; the specification of these sources and refinements in the data collection instrument permitted the achievement of increased efficiencies as the research progressed. However, because most individual funding sources were only interested in details on the specific costs which they were covering, the nonprofit projects frequently lacked a reconciled comprehensive spreadsheet for even their cash sources. This meant that for many of the projects the research staff had to devote a considerable amount of time gathering supplementary information and creating these complete spreadsheets, in addition to the time-consuming process of identifying and valuing the projects' non-cash contributions (which averaged 13.1 percent of full development costs but represented close to one-third in some cases). The process of developing such spread sheets and incorporating the estimations for non-cash contributions involved numerous assumptions. To ensure reasonable accuracy in these valuations, additional feedback from the nonprofit sponsors was necessary. Therefore, the research remained iterative in nature.

Consequently, although we believe that these same cost and funding data can be collected on a larger scale and with enough precision to be able to generalize from them, the effort entailed would be considerable. As noted above, after the selection step each of the fifteen case studies involved an average of about 54 hours of research senior staff time for preliminary orientation, on-site data collection, follow-up and analysis, and case study narrative preparation. The staff time requirements for future cases can be reduced somewhat from this figure by the refinements to the methodology identified in the course of the fifteen case studies, but the reduction would probably not be substantial. Furthermore, because of the complexities of the financing approaches used by many nonprofits and the numerous judgments that must be made in the data collection and analysis, it is advisable that the field research be conducted by senior staff with experience in the area of nonprofit development.

On the other hand, the required research labor that would be entailed for additional case studies probably can be offset significantly through the use of an initial mailed survey to collect a first approximation of the financial picture and history of projects, as described in the discussion of the national nonprofit database in Chapter 7. Also, if detailed narratives are not required for individual projects, additional savings on the order of 10 to 15 hours of research staff time per case could be achieved.

3.0 Recommendations for Refinements to the Data Collection Methodology and Instrument/Cost and Funding Framework

Based on the experience gained in the application of the data collection methodology and the instrument for implementing the cost and funding framework, the following recommendations are made:

3.1 General Comments

If the methodology and framework are employed for an additional sample of case studies utilizing new field staff, it would be worthwhile to have each of those staff members participate in a *training visit* to an actual project before being assigned a larger set of case studies. The experience of conducting a training visit, analyzing and writing-up the results, and participating in a group de-briefing on the effort will provide new research staff with a better appreciation both of the range and complexity of the data being sought and of the methods for collecting such information in a consistent and thorough manner.

If written data are to be sought from the nonprofit sponsor prior to the site visit, an *allowance of 4 to 5 weeks* should be made between the initial request for materials and the scheduled visit, with follow-up calls every two weeks if the information is not received. We recommend this step for efficiency in data collection and effective use of research staff time.

The *written notice* to the nonprofit confirming the site visit should describe the information to be collected, with particular emphasis on those items which the task order experience has shown to be difficult to obtain. These include:

- a detailed breakdown of sources of sponsor's operating revenues;
- a comprehensive sources and uses spreadsheet on the project, including complete syndication proceeds and costs if Tax Credits were involved; and,
- detailed estimates of costs (cash and non-cash) associated with pre-development activities, marketing and brokerage, organizational and legal expenses, and developer's overhead/fee.

3.2 Data Collection Instrument/Costs and Funding Framework

- Section A ("Nonprofit Sponsor - Overall Organizational Characteristics"): The question on p.5 regarding the nonprofit's development experience (Question A.6) should be revised to collect data on the total number of housing units produced since the nonprofit's incorporation, the number of units produced in the five years

immediately prior to the case study project, and the number of units produced in the last five years (including the case study project).

- Section C ("Characteristics of the Development Team and Process"): The table on p.15 (C.5) should be amended to include space for capturing, for each staff member of the nonprofit sponsor who performed a key development function, a brief synopsis of his/her educational training and professional background. This will allow, in conjunction with the information on overall development history from Section A, a more accurate assessment of the organization's technical capacity and level of experience.
- The interview guidelines for the portion of the funding framework on sources of project equity (currently p.16) should include a table for capturing additional details on the syndication, including such items as whether the partnership is a single- or two-tiered partnership, the amount of the qualified basis, the annual Tax Credit amount, number of limited partnership shares and price per share, total proceeds generated, number and size of installments, and schedule of installments.
- The "Underwriting Form" should be incorporated into the interview guidelines for sources of debt financing (currently p. 18), to promote more consistent collection of underwriting characteristics and loan conditions.
- A separate development cost category should be established for syndication-related expenses and loading factors, such as syndication fees and brokerage expenses, partnership acquisition expenses (first tier expenses), net worth accounts, investor servicing, or legal and audit fees, so that the net investment of syndication in the project is clear.
- At the end of the data collection instrument, space should be provided for recording values of the main expense categories of the first year's operating budget, to ensure consistency.

A blank copy of the current version of the cost and funding framework/data collection instrument, and instructions for its use, are contained in the following section -- **Appendix D**.

APPENDIX D

THE DATA COLLECTION INSTRUMENT/COST AND FUNDING FRAMEWORK AND INSTRUCTIONS FOR ITS USE

This Appendix includes a blank copy of the Data Collection Instrument/Cost and Funding Framework which was employed in the fifteen case studies, along with instructions for its use. In that the Data Collection Instrument was designed to be largely self-explanatory, this section will:

- summarize the various features of the Instrument;
- offer elaborating comments on the instructions incorporated in the Instrument; and,
- suggest options in the use of the Instrument.

The first page of the Instrument is intended to identify the project, the nonprofit sponsor, the sponsor's address, and the principal contact person with the organization. It also is to be used to record interviews held (on-site or by telephone) in connection with the case study. The second page of the Instrument is for identifying documents used as key sources of information. To supplement the listing of documents, if the closing brief for the project includes a detailed index it may be worthwhile to photocopy and attach it to this section. Note that the Data Collection Instrument has been provided to HUD as a LOTUS® spreadsheet file to facilitate its use as a data entry format, as well as providing an editable form of the instrument.

Identifying initials/abbreviations for both the interview subjects and the key documents are to be established, so that marginal notations with the relevant initials/abbreviations can be made throughout the Instrument adjacent to each question/data item to indicate the source of the information entered.

Section A of the Instrument focuses on the overall organizational characteristics of the nonprofit sponsor. The data elements in this section are to be completed by checking/circling appropriate items or filling in the blanks. Because the revenue categories listed in a nonprofit's financial statements are often more generic than those listed on p. 4 of the Instrument, it may be helpful to replicate those generic line items onto the bottom portion of p.4. Then in the interviews the research staff can have the nonprofit's representative(s) relate those figures to the more specific revenue categories of the Instrument.

Section B is concerned with characteristics of the completed project. Again, data items are completed by checking, circling, or filling in the blanks, as indicated. In multi-building developments, it may be necessary to include more than one entry for each cell of the table for B.4 "Building Type"; segregating the entries for each separate structure in a single line across the relevant row will avoid subsequent confusion. If the data for B.8 "Unit Characteristics" is not available broken down by unit sizes, then the cumulative figures for each attribute in the rows should be entered in the "TOTAL" column.

Section C addresses the make-up of the development team and the summary characteristics of the development process. In addition to pre-coded or structured questions, this section begins the general "Interview Guidelines" of the Instrument.

The Interview Guidelines serve two purposes. First, they are used as prompts to solicit a response to complete a data element on a facing page; these "prompts" are followed by the symbol ▶ ▶ ▶. Second they are used as more open-ended questions to elicit additional details and descriptions of the processes at work in the projects, which should be recorded in the space provided for each of these questions; these open-ended questions are preceded by the symbol ○, which can be "checked off" by the research staff to help them to keep their place during the interviews.

The cost and funding framework begins on p. 17 with the section on sources of equity funds. The framework is organized according to separate sections on equity funds, debt funds, non-cash resources, and major cost categories (e.g., acquisition, construction costs). However, the layout of the framework is essentially consistent across these separate sections. For each section, the first column on the left hand margin identifies the specific line item. This is followed by a column ("Amount") for entering the value of the line item; this "Amount" column is sometimes sub-divided in two to record values for the "Interim/Construction" phase and the "Permanent Financing" phase. In addition, whenever subtotals or totals for sections of the framework are to be entered in the "Amounts" column, a LOTUS® pointer symbol appears.

The "Amounts" column is followed by a narrow column labelled "Data" which can be used to record the source of the data entered using codes for generic categories of documents identified in the "Keys to Codes" section in the bottom margin of the framework.

The "Data" column is followed by another narrow column labelled "Public" for the sections of the framework on sources of funds; this column can be used to identify how public

funds are being applied (e.g., grants, deferred payment loan, blended rate loan), again utilizing the "Key to Codes". For the sections of the framework on expenses, the "Data" column is followed by a column labelled "Basis" which can be used to record, by code, how any estimates were derived.

The final column in the framework, labelled "Comments/Notes", is for additional notations on sources of data, relationships among line items, and other clarifying comments.

Because it may not be immediately apparent during an interview or in the first perusal of a document where an item should be entered onto the framework, on the facing pages limited worksheets and blank space have been provided to temporarily record the figure for later transposition/transcription to the framework. Supplementary underwriting, estimation, and calculation forms are also included as attachments to the Instrument to permit more elaborate notations or calculations to be permanently recorded.

The final section of the Instrument, which follows the cost and funding framework, contains a series of open-ended questions examining the approach to property management being employed at the completed development, and other activities being undertaken by the nonprofit sponsor which are directed at the project and/or the contiguous neighborhood. At the end of this section there is also space for recording information on rental assistance subsidies being received by the project, and for identifying the mechanism to secure any missing information.

Section A: Non-profit Sponsor - Overall Organizational Characteristics

A.1 Name of non-profit sponsor: _____

A.2 Year of incorporation: _____

A.3 Territory covered [check appropriate box(es)]:

- neighborhood: _____
- city-wide
- metropolitan area/county: _____
- state-wide
- multi-state region: _____
- national
- affiliate of national organization
(specify): _____

A.4 Organizational focus [check one]:

- single-purpose (housing development)
- multi-purpose [if "multi-purpose", circle all applicable categories, where
(c) = current activity and (p) = primary organizational
function]:

- | | |
|-------------------------------------|-------------------------------------|
| (c) (p) housing development | (c) (p) advocacy/community |
| (c) (p) housing management | organizing |
| (c) (p) other property management | (c) (p) community planning |
| (c) (p) employment & training | (c) (p) social services |
| (c) (p) home repair; weatherization | (c) (p) administration of revolving |
| (c) (p) commercial (re)development | loan funds |
| (c) (p) industrial (re)development | (c) (p) other(specify): _____ |
| | _____ |

Section A: Non-profit Sponsor - Overall Organizational Characteristics (continued)

A.5 Principal sources of organization's overall operating budget (for period _____):

Source:	Amount:
CDBG	\$ _____
City, local government (non-CDBG)	\$ _____
State	\$ _____
Federal (non-CDBG)	\$ _____
Foundations	\$ _____
Private contributions	\$ _____
Ancillary businesses (specify): _____	\$ _____
Other sources (please list) _____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
TOTAL	\$ _____

Section A: Non-profit Sponsor - Overall Organizational Characteristics (continued)

A.6 Development experience -- housing:

(a) ____ # of years

If answer to (a) is greater than FIVE years, answer (b) and (c) only for last FIVE years.

(b) ____ # of projects developed (c) ____ # of units created

A.7 Populations served by non-profit's various housing development projects (check all that apply):

- | | |
|--------------------------------------|---|
| <input type="checkbox"/> family | <input type="checkbox"/> mixed income |
| <input type="checkbox"/> elderly | <input type="checkbox"/> low/moderate income (< 80% median) |
| <input type="checkbox"/> handicapped | <input type="checkbox"/> very low income (< 50% median) |
| <input type="checkbox"/> HIV+ | <input type="checkbox"/> no special group |
| <input type="checkbox"/> other: | _____ |

A.8 Industrial and/or commercial development experience:

(a) ____ # of years

If answer to (a) is greater than FIVE years, answer (b) and (c) only for last FIVE years.

(b) ____ # of industrial and/or commercial projects

(c) types of projects:

B.4 Keys to codes for "Building type": ▶ ▶ ▶ ▶

(1) framing type: A = wood frame; B = wood joists; C = steel joists; D = reinforced concrete frame; E = other (specify: _____).

(2) exterior wall: A = wood/vinyl; B = stucco; C = stucco on concrete block; D = brick veneer; E = face brick with concrete block back-up; F = solid brick; G = pre-cast concrete panels; H = decorative concrete block; I = other (specify: _____).

(3) heating system: A = oil; B = gas; C = electric; D = solar; E = other (specify: _____).

(4) quality:

A = class A space ("custom") -- a custom class residence is usually built from a designer's plans which have been modified to give the building a distinction of design. Materials and workmanship are generally above average with obvious attention given to construction details. Construction normally exceeds building code requirements.

B = class B space ("average") -- an average class residence is simple in design and is built from standard designer plans. Materials and workmanship are average but often exceed the minimum building codes. There are frequently some special features which give the residence some distinctive characteristics.

C = class C space ("economy") -- an economy residence is usually mass produced from stock plans. The materials and workmanship are sufficient only to satisfy minimum building codes. Low construction cost is more important than distinctive features. Design is seldom other than square or rectangular.

These definitions are taken from R.S. Means. If how the project fits into these categories is not obvious, ask the project's architect how s/he would rate the quality against these standards.

Section B: Characteristics of the Housing Project

B.1 Name of Project: _____

B.2 Location of Project: _____

B.3 Project type [check appropriate boxes]:

(TENANCY TYPE)

- Rental
- Homeownership
- Limited Equity Coop

(OCCUPANCY TYPE)

- Multi-family
- Single family

(DEVELOPMENT APPROACH)

- Rehabilitation - mod (<\$15K/unit)
- Rehabilitation - sub (≥\$15K/unit)
- New construction

B.4 Building type:

USE CODES FOUND ON LEFT PAGE

Building type:	# of buildings	# of stories	framing type (1)	exterior wall (2)	heating system (3)	quality (4)
Single family/ detached						
Townhouse/garden/ row house						
Low rise (1-3 stories) *						
Mid rise (4-7 stories)						
High rise (8 or more stories)						
Total						

* Low-rise buildings are distinguished from townhouse/garden/row houses by the presence of common space in the low-rise buildings.

B.5 Total square footage of living space = square footage of unit X number of units.

B.8 Fill in the number of units for ALL categories shown, either by entering a number greater than zero or, if no units of a type exist, by drawing a line down the column.

After establishing the appropriate unit categories for the project, complete the other items in the columns (sf, rental, sales price, etc.) for units of that size.

For "monthly carrying costs" and "percentage low/mod income units", if information is not available broken down by unit size, then simply enter the figure for the total development.

Section B: Characteristics of the Housing Project (continued)

B.5 Total square footage of living area of development (exclusive of common space): _____ sf

B.6 Linear footage of development site perimeter: _____ lf
 (If not available from site plan, pace off to get rough perimeter measurement)

B.7 Total square footage of development site: _____ sf

B.8 Unit Characteristics:

	0BR	1BR	2BR/ 1B	2BR/ 1+B	3BR/ 1B	3BR/ 1+B	4BR/ 1B	4BR/ 1+B	4+BR	TOTAL
Number of Units:	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Avg. sf/unit	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____ sf
Monthly rental (\$):	\$ _____	_____	_____	_____	_____	_____	_____	_____	_____	_____
OR:										
Sales price (\$):	\$ _____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Monthly carrying cost (share of mortgage, taxes, insurance, operating costs) (\$):	\$ _____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Monthly coop fees	\$ _____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Percentage of low/mod income units (%):	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____ %

Section B: Characteristics of the Housing Project (continued)

B.9(a) Services included in rent or carrying costs (the latter for cooperatives):

- | | |
|---|---|
| <input type="checkbox"/> oil heat | <input type="checkbox"/> domestic electricity |
| <input type="checkbox"/> gas heat | <input type="checkbox"/> cooking |
| <input type="checkbox"/> electric heat | <input type="checkbox"/> central AC |
| <input type="checkbox"/> domestic hot water | <input type="checkbox"/> other: _____ |

B.9(b) Services paid by tenant (for rental or cooperative units):

- | | | |
|---|-------------------------------------|---------------------------------------|
| <input type="checkbox"/> heat | <input type="checkbox"/> cooking | <input type="checkbox"/> dryer |
| <input type="checkbox"/> domestic elec. | <input type="checkbox"/> dishwasher | <input type="checkbox"/> AC |
| <input type="checkbox"/> hot water | <input type="checkbox"/> washer | <input type="checkbox"/> other: _____ |

B.10 Project/unit amenities (check all applicable boxes for items provided with unit/project):

- | | |
|---|---|
| <input type="checkbox"/> refrigerator | <input type="checkbox"/> private yards |
| <input type="checkbox"/> washer/dryer | <input type="checkbox"/> basement storage space |
| <input type="checkbox"/> dishwasher | <input type="checkbox"/> parking/garage (# tot. spaces: _____) |
| <input type="checkbox"/> disposal | <input type="checkbox"/> community room/facilities
(_____ square feet) |
| <input type="checkbox"/> trash compactor | <input type="checkbox"/> laundry room |
| <input type="checkbox"/> microwave oven | <input type="checkbox"/> elevators |
| <input type="checkbox"/> range/hood exhaust | <input type="checkbox"/> security system/guards |
| <input type="checkbox"/> ceramic bath walls | <input type="checkbox"/> landscaping |
| <input type="checkbox"/> carpeting | <input type="checkbox"/> pool |
| <input type="checkbox"/> drapes | <input type="checkbox"/> other health facilities
(specify: _____) |
| <input type="checkbox"/> air conditioning | <input type="checkbox"/> day care |
| <input type="checkbox"/> fireplace | <input type="checkbox"/> other specialized support services
(specify): _____ |
| <input type="checkbox"/> skylights | <input type="checkbox"/> other (specify): _____ |
| <input type="checkbox"/> other special windows | |
| <input type="checkbox"/> other (specify): _____ | |
| _____ | _____ |
| _____ | _____ |

Interview Guidelines -- Organization of the Development Team

Did the non-profit have any partners in the development? ▶ ▶ ▶ ▶ C.1

- If "yes", how is the ownership liability shared with any partners?

- Why did the non-profit choose the organizational approach followed? Had the non-profit used this development approach in the past?

○ Who were the members of the development team? ▶ ▶ ▶ ▶ C.2 - C.5

Did the non-profit utilize a Development Consultant, or did it have the necessary expertise in-house? ▶ ▶ ▶ ▶ C.3

If a Development Consultant was utilized, had the non-profit worked with this individual, entity in the past?

Who was the General Contractor for the development, and how was this entity selected? ▶ ▶ ▶ ▶ C.4

Section C: Characteristics of the Development Process

C.1 Organizational/legal structure of development project (check appropriate box):

- single non-profit
- non-profit/non-profit partnership
- for-profit subsidiary of non-profit
- non-profit/for-profit partnership
- other (specify): _____

(Use this space to draw diagram of organizations involved in the project and their relationships to each other):

C.2 Developer's name (if different from non-profit sponsor):

C.3 Name of Development Consultant (if one was utilized):

- Check here if non-profit used this development consultant in past.

C.4 Name of General Contractor: _____

Was the selection on a competitive basis?: _____

How selected: _____

Interview Guidelines - Organization of the Development Team

- **How were the Architectural/Engineering services secured? ▶ ▶ ▶ ▶ C.5**

- **From what source(s) did the non-profit obtain the Legal assistance necessary for the various stages of the development project? ▶ ▶ ▶ ▶ C.5**

- **If in-house expertise was utilized, where did the development-related staff receive their training? ▶ ▶ ▶ ▶ C.5**

- **Note the previous housing development experience of staff that worked on this project.**

Section C: Characteristics of the Development Process (continued)

C.5 Sources of development expertise (check appropriate boxes; if possible also identify specific individuals or organizations involved):

Form of expertise:	In-house	Paid consultant/ contractor	Pro-bono contribution
Planning & Feasibility			
Architectural			
Engineering			
Legal			
Construction management			
Financial management			
Marketing			

C.6 Project milestones:

Date (month/year): **Source of info:**

Feasibility analysis:	_____	_____
Site acquired:	_____	_____
Start construction:	_____	_____
Finish construction:	_____	_____
Occupancy permit issued:	_____	_____
Project 95% occupied:	_____	_____

Interview Guidelines -- Project Financing/Sources of Funds

- When did the non-profit begin the process of seeking financing?

What equity was the non-profit required to have in the project, and from what sources did the non-profit secure this equity? ▶ ▶ ▶ ▶ 1.10

Optional: Interviewer may use following chart to summarize equity sources during interview; after interview, data should be entered onto "Sources of Funds" form.

Sources:	Amount:
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

- Did the non-profit find that the available financing was sufficient to cover all the development related expenses, or was it required to subsidize the project out of its own operating or capital improvements funds? ▶ ▶ ▶ ▶ 1.11 - 1.12

- If the development received funding from private foundations/charitable organizations or from public sources, was this assistance in the form of grants or loans?
▶ ▶ ▶ ▶ 1.13 - 1.17

SOURCES OF FUNDS	AMOUNT		D	P	A	B	I	C	COMMENTS/NOTES
	INTERIM/CONSTRUCTION	PERMANENT							
1.00 CASH RECEIPTS →									
1.10 EQUITY FUNDS →									
1.11 Sponsor's cash contributions from operating budget									
1.12 Sponsor's cash contributions from capital budget									
1.13 Investment funds (Ptrn. equity, incl. LIHTC)									
1.14 Deposits on unit purchases									
1.15 Condo/co-op fees and assessments									
1.16 Grants from private sources (foundations, charitable org., etc.)									
1.17 Grants from public sources: CDBG Other HUD, Federal State Local Other: _____									
1.18 Interim income (lease-up during construction)									
1.19 Other equity sources: _____									

(continued on next page)

For each entry in the chart above, record the appropriate code(s). For example, for a CDBG grant documented by an award letter, one would enter adjacent to "1.17 CDBG" the codes "B" and "J."

KEY TO CODES

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- F =other (Note in right margin)

● ESTIMATED DATA: SOURCES

- G =project/sponsor staff estimates
- H =Abt/Aspen computation
- I =other (Note in right margin)

● APPLICATION OF CDBG OR OTHER PUBLIC FUNDS

- J =grant/principal reduction grant
- K =deferred payment loan
- L =zero interest loan
- M =low interest or blended rate loan
- N =other (Note in right margin)

Interview Guidelines -- Project Financing/Sources of Funds

- From what sources did the non-profit seek debt financing?

Where and when did the project ultimately obtain debt financing? ▶ ▶ ▶ ▶ 1.20

- What were the terms of this debt financing?

Source:	Amount:	%:	Points:	Term (years):
(Construction)				
_____	\$ _____	____%	_____	_____yrs
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
(Mortgage take-out)				
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
(Bridge loans)				
_____	_____	_____	_____	_____
(Other)				
_____	\$ _____	____%	_____	_____yrs

(Use Underwriting Form to record other details/conditions for the debt financing.)

- What was the relationship between the construction financing and the permanent financing (and any bridge loans)? ▶ ▶ ▶ ▶ 1.23 - 1.24 - 1.25
- What options are available (or penalties imposed) for pre-payment of these loans?
- Would the same underwriting and financing terms have been available to a for-profit to undertake the same project?

SOURCES OF FUNDS (continued)	AMOUNT		D A T A	P U B L I C	COMMENTS/ NOTES
	INTERIM/ CONSTRUCTION	PERMANENT			
1.20 DEBT FUNDS →					
1.21 Seed money loans (note relationship to other financing)					
1.22 Revolving/operating loans (note relationship to other financing)					
1.23 Construction financing (draws): Conventional lender CDBG Other HUD, Federal State (public sources) Local (public sources) Other: _____ (note relationship to permanent financing)					
1.24 Mortgage take-out: Conventional lender FHA-insured Other federal State FHA Other state (public) Local (public sources) Community Loan Fund Other: _____ (note which is 1st, 2nd, 3rd, etc.)					
1.25 Bridge loans (note time period covered and relationship to other financing)					
1.26 Other unsecured loans: _____					
SUBTOTAL A: CASH RECEIPTS →					

(continued on next page)

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Interview Guidelines -- Project Financing/Sources of Funds

Did the development project receive any donations (of land, structures, infrastructure, materials and equipment, or labor/technical expertise)? ▶ ▶ ▶ ▶ 2.01 - 2.05

Did the non-profit utilize sweat equity which added to the resources available for the development project? ▶ ▶ ▶ ▶ 2.06

- For any loans received, did the non-profit receive special terms (e.g., below market interest rate, longer loan terms, etc.)? ▶ ▶ ▶ ▶ 2.07**

- Did it receive any other waived or reduced fees, or abatements, in connection with this development project?**

What was the value of these subsidies? ▶ ▶ ▶ ▶ 2.08 - 2.09

- Overall, was the financing approach which was followed different from what the non-profit had originally planned?**

SOURCES OF FUNDS (continued)	AMOUNT		D	P	PUBLIC	COMMENTS/ NOTES
	INTERIM/ CONSTRUCTION	PERMANENT				
2.00 VALUE OF NONCASH RESOURCES →						
2.01 Donated land (or writedowns)						
2.02 Donated structures (or writedowns)						
2.03 Donated infrastructure (or writedowns)						
2.04 Donated materials/equipment (or writedowns)						
2.05 Donated labor/technical expertise (or writedowns)						
Planning						
Architectural						
Engineering						
Legal						
Construction						
Finance						
Management						
2.06 Sweat equity/self-help labor						
2.07 Value of interest rate discounts or subsidies						
2.08 Value of reduced or waived fees						
2.09 Value of tax abatements						
2.10 Other: _____						
SUBTOTAL B: NON-CASH RESOURCES →						
3.00 TOTAL PROJECT INCOME/RESOURCES (SUBTOTAL A + SUBTOTAL B) →						

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Interview Guidelines -- Project Expenses/Uses of Funds

- When had the non-profit first considered undertaking the development? What event started the pre-development process?
- What was the target population for the development, and how was this population determined?
- How did the non-profit select the site (and were other sites considered)? ▶ ▶ ▶ ▶ **1.01**
- Did the non-profit conduct a formal feasibility/market analysis?
 - How was the expense of this analysis covered? ▶ ▶ ▶ ▶ **1.02**
- How were the fees for the architectural/engineering services established, and how was this expense covered? ▶ ▶ ▶ ▶ **1.03 - 1.04**
- How involved and time consuming was the process to obtain the necessary permits?; were any special waivers or variances required?
- Did the non-profit receive any special consideration in either the permit fees or timeliness of the approval process because of its non-profit status or the nature of the housing development project? ▶ ▶ ▶ ▶ **1.08**
- What did the non-profit have to do to actually secure the site? ▶ ▶ ▶ ▶ **2.00**
- Did the non-profit receive any special consideration in the price for acquiring the site, and would this price have been available to a for-profit for undertaking the same project? ▶ ▶ ▶ ▶ **2.04**

USES OF FUNDS	AMOUNT	D A T A	B A S I S	COMMENTS/ NOTES
<p>PRE-DEVELOPMENT PHASE</p> <p>1.00 PROJECT PLANNING AND DESIGN →</p> <p>1.01 Site search</p> <p>1.02 Market feasibility/affordability analysis</p> <p>1.03 Architect fees</p> <p style="padding-left: 40px;">Schematic design</p> <p style="padding-left: 40px;">Design development</p> <p style="padding-left: 40px;">Construction documents</p> <p style="padding-left: 40px;">Bidding/negotiation</p> <p style="padding-left: 40px;">Construction supervision</p> <p>1.04 Engineering fees</p> <p>1.05 Surveys, borings, perc tests (if not included in 1.04)</p> <p>1.06 Environmental/historical assessments</p> <p>1.07 Planning, zoning, subdivision approval process</p> <p>1.08 Value of donations or markdowns</p>				<p>IF PARTIAL DONATION, NOTE</p>
<p>2.00 ACQUISITION →</p> <p>2.01 Deposits, options, etc.</p> <p>2.02 Land purchase</p> <p>2.03 Structures purchase</p> <p>2.04 Value of donations or markdowns</p>				

(continued on next page)

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● **BASIS OF COST FIGURE**

- O =cost totally out-of-pocket
- P =cost partially subsidized/donated: entry on form shows out-of-pocket amount only
- T =cost totally subsidized/donated

Interview Guidelines -- Project Expenses/Uses of Funds

In addition to the expense of the initial feasibility studies and/or architectural/engineering fees, what were the development's costs of securing the project's financing and the carrying charges associated with that financing? *(Interviewer should go item by item through any of the cost elements on the facing page which weren't previously discussed in the identification of financing terms.)* ▶ ▶ ▶ ▶ 3.00

- How does debt service add to the operating costs of the completed project?

USES OF FUNDS (continued)	AMOUNT		D	B	A	T	S	I	S	COMMENTS/ NOTES
	INTERIM/ CONSTRUCTION	PERMANENT								
CONSTRUCTION PHASE										
3.00 FINANCING AND CARRYING CHARGES ➔										
3.01 Appraisals										
3.02 Mortgage application fee										
3.03 Points										
3.04 Loan origination fee (if separate from 3.02 and 3.03)										
3.05 Title and recording										
3.06 Transfer taxes										
3.07 Title insurance										
3.08 Partnership syndication fees										
3.09 LIHTC fees										
3.10 Mortgage revenue bond fees										
3.11 Construction period interest										
3.12 Construction inspection										
3.13 Bridge loan interest										
3.14 Other: _____										
3.15 Value of interest rate discounts										
3.16 Value of other financing subsidies or fee discounts										

(continued on next page)

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Interview Guidelines -- Project Expenses/Uses of Funds

- Was any relocation required as part of this project?
 - What was the cost of this relocation, and how was it covered? ▶ ▶ ▶ ▶ 4.00
- How was the construction contract structured?
- Were there any elements in this contract which limited either the non-profit's liability or control relative to the construction period (i.e., turn-key, as built, etc.)?
- What kinds of site preparation activities or infrastructure improvements were required for the development? ▶ ▶ ▶ ▶ 5.01
- Did the non-profit receive any assistance from the municipality or local utilities which helped to defray some of the costs associated with these site/infrastructure improvements?
▶ ▶ ▶ ▶ 5.015

USES OF FUNDS (continued)	AMOUNT	D A T A	B A S I S	COMMENTS/ NOTES
4.00 RELOCATION →				
5.00 CONSTRUCTION COSTS →				
5.01 Site preparation and improvements				
5.011 Demolition (including de-leading and asbestos removal for rehab)				
5.012 Earthwork (excavation, disposal of fill, grading)				
5.013 Infrastructure Sewer and Storm Drainage Water Fire Protection Gas and Electric Telephone Roadways/sidewalks Parking Lighting Other: _____				
5.014 Landscaping and outdoor furniture				
5.015 Values of donations or markdowns				

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Interview Guidelines -- Project Expenses/Uses of Funds

(Interviewer should go item by item through the cost elements on the facing page.) ▶ ▶
▶ ▶ 5.02 - 5.15

- Did the direct construction costs exceed the original budget for any of the AIA/CSI cost categories; if so, why?

- (Approximately) how many change orders were there during the construction period?

- Why were these change orders necessary?

- Did the construction period take longer than anticipated; if so, why?

- Was the project used for job training purposes, and if so, did this have any effect on the schedule or cost of the project?

- Did any of the construction delays or cost overruns require additional financing?

- When was the construction completed and occupancy permits issued?

- Did the delays and/or cost overruns have a negative effect on the rent levels/sales prices the project was required to charge?

USES OF FUNDS (continued)	AMOUNT	D	B	A	S	COMMENTS/ NOTES
		A	A	I	S	
5.02 Direct construction costs (note whether this figure is inclusive of site prep and improvements)						
5.03 General conditions (document anything over 3% of direct construction)						
5.04 Clerk/construction management (if not included in 5.03)						
5.05 Permits and inspection(s)						
5.06 Insurance: Builder's risk Comprehensive liability						
5.07 Performance bonds						
5.08 Contractor's overhead						
5.09 Contractor's fee						
5.10 Project reimbursables (other costs attributable to the project)						
5.11 Utilities during construction (if not in 5.03)						
5.12 Security during construction (if not included in 5.03)						
5.13 Other construction expenses: _____						
5.14 As built drawings, documents, and guarantees						
5.15 Value of donated labor and materials						

(continued on next page)

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● BASIS OF COST FIGURE

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Interview Guidelines -- Project Expenses/Uses of Funds

- When did the marketing or tenant selection begin for the project?
- What was involved in these marketing activities and who carried them out?
- What was the source of funding for these marketing/tenant selection activities?
▶ ▶ ▶ ▶ **7.00**
- How long did it take to lease up/sell 95% of the units? How did this time frame compare to the original schedule for this phase?
- If there were delays in the lease up/sales, how were the costs (maintenance, security, utilities, taxes, debt service and the like) associated with this period covered? ▶ ▶ ▶ ▶
7.04 - 7.07
- Did the financing for the project make allowances for the establishment of pre-funded reserves? ▶ ▶ ▶ ▶ **8.00**

USES OF FUNDS (continued)	AMOUNT	D	B	A	A	S	COMMENTS/ NOTES
6.00 DEVELOPMENT PERIOD REAL ESTATE TAXES (or in lieu payments) →							
LEASE – UP/SALES PHASE							
7.00 MARKETING AND BROKERAGE →							
7.01 Advertising/promotion							
7.02 Tenant selection							
7.03 Broker commission							
7.04 Maintenance							
7.05 Security (after construction)							
7.06 Utilities during lease-up							
7.07 Interest during lease-up (if not in 3.00)							
7.08 Value of donated labor and materials							
8.00 RESERVES →							
8.01 Capital for replacement reserve fund							
8.02 Working capital for reserve							
8.03 Debt service reserve							
8.04 Operating reserve							
8.05 Other special reserves							

(continued on next page)

KEY TO CODES

● **EMPIRICAL DATA: SOURCES**

- A =lending instruments
- B =public award documents
- C =construction contract documents
- D =certification of costs to private financing source
- E =certification of costs to public financing source
- F =other (Note in right margin)

● **ESTIMATED DATA: SOURCES**

- G =project/sponsor staff estimates
- H =Abt/Aspen computation
- I =other (Note in right margin)

● **BASIS OF COST FIGURE**

- O =cost totally out-of-pocket
- P =cost partially subsidized/donated: entry on form shows out-of-pocket amount only
- T =cost totally subsidized/donated

USES OF FUNDS (continued)	AMOUNT	D A T A	B A S I S	COMMENTS/ NOTES
OVERALL EXPENSES				
9.00 ORGANIZATIONAL AND LEGAL → (rough rule 3% of item 12)				
9.01 Legal: → Acquisition Title and recording Architect contract Zoning, permits Use restrictions Construction contract Syndication Loan applications and closing Co-op/condo documents				
9.02 Accounting and cost certification				
9.03 Office furniture, fixtures, and equipment				
9.04 Other direct organizational expenses				
9.05 Organizational overhead				
9.06 Development consultants				
9.07 Co-op training/organizational costs				
9.08 Value of donated components				
10.00 DEVELOPER'S OVERHEAD → (if different from 10.00)				
11.00 DEVELOPER'S FEE →				
12.00 SUBTOTAL: CASH → (to be completed after interviews)				
13.00 SUBTOTAL: NON-CASH → (to be completed after interviews)				
14.00 GRAND TOTAL PROJECT COST →				

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Interview Guidelines -- Other Activities by the Non-profit

- (For rental property) Is the non-profit continuing to serve as owner of the completed development? yes no
 - What entity is managing the completed project?
 - What kind of management fee is this entity receiving?

- (For limited equity cooperatives) Is the non-profit or management entity providing any technical assistance/capacity building training for the resident association?
 - What are the funding sources for this technical assistance/capacity building activity?

- What other activities/services does the non-profit carry out in the neighborhood in which the housing development is located?

- What were the pre-existing problems in the neighborhood prior to the housing development project?
 - Have these problems been remedied or mitigated in any way by the development project?

- What percentage of the current residents were living on the project site before the current (re)development? _____%

- What percentage of the current residents of the development project came from the local neighborhood? _____%

Interview Guidelines -- Other Activities by the Non-profit

- Are there public benefits generated by this project, such as payment of back taxes, restoration of derelict property to tax rolls, employment for local residents? Please list and provide documentation: _____

- Are there any services (such as day care) which the non-profit continues to provide specifically for the residents of the development project?

- What are seen as the benefits of these activities?

- Has the non-profit attempted to document these benefits in any formal way?

- How are these services to residents paid for?

- external sources (specify): _____
 - included in rent
 - direct charge to residents
 - other (specify): _____

- How do the general services offered by the non-profit to the neighborhood impact the housing development and its residents?

- Has there been any attempt to document these benefits?

- Are rents supported by explicit rent subsidies?

	# of units		Duration
Source:	covered:	Amount:	of contract:

BE SURE TO THANK RESPONDENT AND CHECK UNDERSTANDING ON HOW ANY MISSING INFORMATION WILL BE SECURED.

ALSO BE SURE TO OBTAIN OPERATING BUDGET/PRO FORMA FOR AT LEAST THE FIRST YEAR OF THE COMPLETED DEVELOPMENT. Obtained?
Period covered: _____

REMEMBER TO TAKE/OBTAIN COLOR PHOTOS OF THE DEVELOPMENT
(NOTE: processing time is minimized with ektachrome film)

Photos obtained:

- Block
- Exterior
- Interior

UNDERWRITING FORM

LOAN AMT/TYPE				
LOAN SOURCE				
LOAN POSITION				
REQUIREMENTS FOR: Equity (loan to value) Debt service coverage Mortgage insurance Collateral Cash deposits Reserves Other features				

COSTS AND FUNDING FRAMEWORK

ESTIMATION WORKSHEET

(estimates from non-profit sponsor and other key project actors)

Resource or cost element	Basis for estimation (\$/unit x # units)	Estimated value	Industry standard for \$/unit or # of units	Possible margin of error

COSTS AND FUNDING FRAMEWORK

COMPUTATION WORKSHEET

Resource or cost element to be valued	Price/unit (cite industry standard used)	# of units (cite industry standard used)	Additional adjustments (specify)	Valuation

U.S. Department of Housing and Urban Development
Washington, D.C. 20410-6000

Official Business

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